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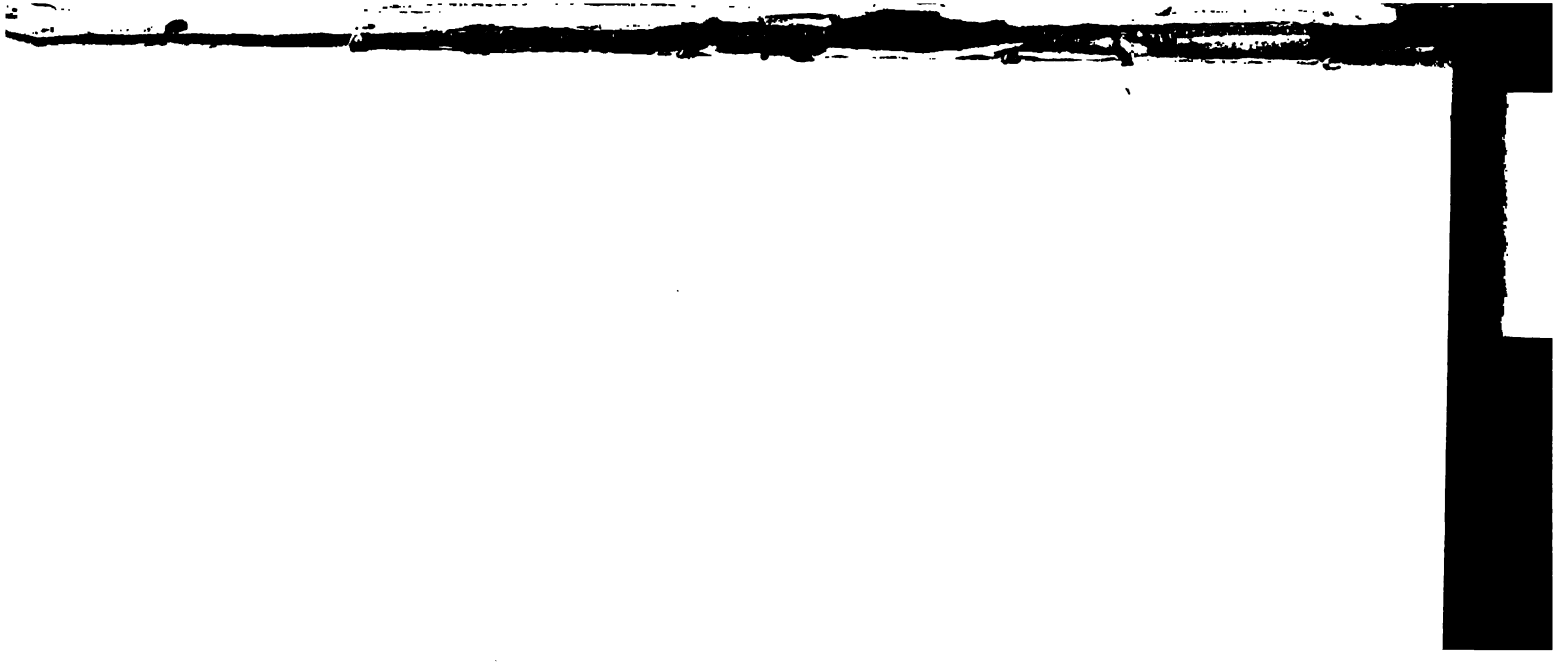

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PRESENT AND PAST BANKING IN MEXICO

Present and Past Banking in Mexico

BY

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To
Willam B. Seeley
Peerless Master
Sincere and Unfaltering Friend

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PREFACE

THE economic history of Mexico scarcely holds a chapter of more interest than that dealing with the subject of banking. The uncertainties which dominated the political and economic affairs of that country for fifty years after the recognition of her independence were wholly antagonistic to the development of financial institutions. Baron Louis, the great French economist, has said, "Give me a good government and I will give you well-ordered finances." He might well have added that a good government and well-ordered finances are parts of a whole—the one cannot exist without the other.

When Mexico had overthrown the Spanish power, which had controlled the country for almost three centuries, things crashed down in all directions. For many years prior to 1810 the Spanish government had been raising annually in Mexico approximately $11,000,000[1]

[1] We shall indicate peso, the Mexican unit of value, by P. It must be borne in mind that, subject to exchange fluctuations, the $ and P were equivalents until the demonetization of silver in the United States. This relationship was further affected on the passage in 1905 of the Gold Standard Act by Mexico. The peso is now equivalent to $0.50.

of revenues, of which total almost one-half was exported to the mother-country. However, left to their own devices, the Mexicans—spite of forced loans and confiscations—were unable to make ends meet in their national finances. They struggled on, to be sure; but faction after faction rose, only to fail in the effort to set things to rights.

It was no soil for the development of banks. Besides, savings or idle funds among the mass of the people were insignificant in volume. They lived from hand to mouth—very much, indeed, as did their national governments—and they were ever and eternally hanging on the verge of starvation. Banking institutions develop always in response to economic needs, and doubtless they would earlier have come into existence in Mexico had there been any guaranty as to continuity of authority, or any assurance against looting by a triumphant revolutionary leader.

Given the degree of banking development of a country, it is not difficult to appraise its economic status, nor is it difficult to estimate the degree of civilization and comfort of its citizens. Banks may be said to be barometers which measure faithfully the economic pressures of a country. Mexico, therefore, convulsed with interminable wrangling, could not

have been expected to develop a system of banking.

From 1821 to 1870 Mexico suffered from continuous internal revolutions. Besides, there were wars with Texas and the United States, and French intervention. As illustrative of the chaos existing in national affairs, during these fifty years there were more than 200 incumbents of the post of Minister of Hacienda, or Treasury. And for fifteen years of the time there are in existence only fragmentary records of national budgetary statements. The financial disorganizations of the country extended through private as well as public domain. Arbitrary rules and decrees varied with each change of authority. Properties were confiscated and loans exacted as occasion offered, and this state of things continued even under the early rule of Porfirio Diaz. In all, from 1821 to 1869, Mexico raised through forced loans and extraordinary sources approximately P360,000,000, according to Romero.

Soon, however, there was to dawn a new era for Mexico. Under the stimulus of a stable government, which Diaz came to develop after 1876, the material interests of the country flourished, and banks began to be established under federal and state concessions. These were of several types, and it was early recog-

nized that a general banking law must be enacted. However, it was not until 1897, under the leadership of José Yves Limantour, that this much-needed measure became a law of the land. It was a conspicuous act, and under it there was witnessed an unprecedented development of banks. These institutions continued to grow in number and responsibility up to the Madero revolution of 1910, since which date they have suffered many vicissitudes of fortune.

In this book I have attempted to trace the history of the credit institutions of the country from their initial stages down to the present time. Effort has been made to stress the salient facts in the extraordinary story of the rise and fall of banking in our neighboring republic.

This study is based on official Mexican sources, chiefly the *Memorias de Hacienda*, *Memorias de las Instituciones de Crédito*, and *Boletines Estadísticas*. Also certain data have been supplied by the present officials of the Mexican government. Among these, it is a pleasure to mention Señor J. G. Camacho, chief of the Department of Banking; Señor Carlos Gonzalez, chief of the Department of Controlería; and finally, Señor Rafael Nieto, Sub-Secretary of the Hacienda. During my stay in the Mexican capital, all possible facili-

ties were tendered me by those in authority. Still, it may as well be added, much information sought was not discovered, and simply because the data did not exist, or at all events had not been assembled.

It is surprising that so few students have given attention to Mexican finances, public or private. Possibly this may have come about through the difficulties which beset the field, the unsatisfactory conditions of official reports, and at times the total absence of data for certain periods. Then, in public official reports there are often contradictory statements, even where reference is made to the same item. These conflicts must be harmonized and the data chosen which appears best to fit in with other facts. Favre, in his *Les Banques au Mexique*, has given us a superficial study of the Mexican banks at the height of their power. Casasus, Labastida, and Macedo have acquitted themselves creditably in dealing with phases of the general subject. Macedo, in his *Tres Monografías*, has produced a notable book. It was left for Conant to write the best treatise on the subject of banking in Mexico, but he confessedly made no attempt to cover the entire field. Besides, since he wrote, ten disastrous years have fallen over Mexico.

Acknowledgment is here made to my friends

and to several bankers of Mexico City, whose names for the moment may not be made public.

I am most grateful to Dr. L. S. Rowe for suggestions. To Dr. H. Parker Willis I am heavily indebted, for he not only read the manuscript but the galleys as well and offered some vital criticisms. Dr. Norman Bridge has heartily co-operated with me and is due my thanks.

Finally, this labor may not be concluded without special reference to Mr. Edward L. Doheny, who, out of broad sympathies for Mexico and high philanthropic purposes, established the Foundation bearing his name.

It is scarcely necessary for the writer to affirm that he has done this book with an eye single to reaching the truth. It is his book and he alone is responsible for its contents.

WALTER FLAVIUS MCCALEB.

NEW YORK, *September, 1919.*

INTRODUCTION

DURING the Spanish régime in Mexico (1520–1810) no banking institution, in the modern sense of the term, came into existence in that country. The nearest approach to one was the Monte de Piedad, a charitable organization designed to lend small sums of money to the needy. It was opened to the public in Mexico City in 1775; and we shall have reason later to discuss it in some detail.

As a Spanish colony, Mexico knew but primitive methods in finance. This was true not only in the realm of government, but in the relations of individuals. The development of the great banks of England and France had reacted but slightly upon Spain, and less still upon her remote colony of Mexico. There were, strictly speaking, no credit institutions in the country. Credit operations—where they were carried on at all—were more or less incidental to business. Merchants and traders made advances of goods and money to *hacendados* (plantation-owners), and to mine-owners and operators. When the *hacendado* had gath-

ered his crop, the merchant took heavy toll of the yield. The system had been directly implanted from Europe, and it may be added that, in the nature of things, the United States was also a victim; and that even to-day it suffers in certain sections from the deadly effects of that earlier economic makeshift.

Closely allied to the system of merchant advance to farmer was that of the *rescatador*, banker-broker to the miner. The *rescatador* lent money to mine-owners and operators, and in return handled the output of the mine, selling the product and recouping himself for his advances. This system, simple enough, was destined nearly to disappear in the wreck of the great Revolution of 1810; but occasionally, even to the present, it is invoked in modified forms.

In the main, those functions which we ascribe to banks were nowhere exercised in Mexico until long after its independence had been achieved (1821). Merchants and traders were the money-lenders; they were also the depositaries. On their own account they accumulated capital in specie, which they kept in their strong-boxes, and they received moneys on deposit from their friends and clients for safe-keeping, much indeed after the fashion in all primitive communities. But as for paper

credits, in the strict sense—they were non-existent. There were, to be sure, occasional transactions between money-lenders and individuals; and a few Mexican houses came to be well known. Some were greatly enriched through loaning to the government at exorbitant rates. These earned the name of *agiotistas*—extortionists.

In 1824 and 1825 there appeared on the scene agents for English houses, who soon introduced the draft as an instrument of commerce. To be able to buy a London draft to settle an outstanding foreign balance was indeed an innovation in Mexico. Messrs. Manning & Marshall, agents for the house of Barclay, Herring, Richardson & Co., of London, came to be well recognized, and it was through this connection that the second foreign loan of P16,000,000 was negotiated in 1825.

However, apart from money-lending and depositary operations of these merchants, traders, and brokers, there was exercised no other banking function. It was an age of barter. All business transactions were made on the basis of an exchange of gold and silver, or other commodities. The matter of transferring credits from one part of the country to another presented serious difficulties, for the reason that it involved the actual delivery of bullion,

gold or silver. This need gave rise to the expensive system known as *convoy*—a system which involved the despatch of an armed guard to protect the precious metals against bands of outlaws infesting the country. This system was not abandoned until a degree of order was established in the country—indeed, not until banks and railroads came to provide a better and safer mode. It may be added that the convoy system, in a measure, has been revived during the past few years on account of the perils attending the shipment of money and goods.

For many years after the achievement of her independence there reigned a profound ignorance on the part of the public and Mexican statesmen with respect to banking institutions. The first banks, so called, in Mexico were not banks at all, but rather agencies of the government charged with special duties; but even here there were so few attempts to do things that we may briefly trace these efforts.

On October 16, 1830, the Mexican Congress passed an act authorizing the establishment of a Banco de Avio for the purpose of stimulating national industries. Its capital was fixed at P1,000,000, and provision was made for the creation of this capital through the assignment

of one-fifth of the customs dues collected from cotton importations. However, no progress was made, and on May 25, 1832, a law was passed authorizing the Executive to negotiate a loan of P100,000 in order to provide the bank with capital. Finally, the institution actually got under way, but little was achieved. Then the war with Texas broke out. On January 20, 1836, a law was passed prohibiting the government from making application of the customs funds in the manner prescribed with respect to the bank—and it expired.[1]

The war with Texas added greatly to the burdens of the distracted Republic of Mexico. In order to prosecute it, considerable quantities of copper were coined and thrown into the channels of commerce, much to the confusion of business. On account of the ease with which counterfeiters could produce these crude coins, the country was soon having its first experience with depreciated currency. So troublesome indeed was the matter that in 1837 the Hacienda, or Treasury, urged the retirement of the copper coins at their nominal, or market, value. In order to carry into effect this resolution, a law was passed, January 17, 1837, authorizing the creation of a national bank.

The capital of the institution was to be pro-

[1] *Memoria de Hacienda*, Mexico, 1870, p. 110.

vided by assigning to it, among other things, all the national properties of the Republic, including the confiscated goods and lands of the Jesuits and of the Inquisition. It was planned that the new bank should authorize a special coinage of money with which the copper would be retired. The bank was given authority to issue the necessary rules and regulations, and to create a special coin in the proposed amortization scheme; and finally it was empowered, if need be, to negotiate a foreign loan up to P4,000,000, hypothecating its funds and resources. On January 20, 1837, the establishment of the bank was announced, but monetary difficulties developed more rapidly than the lawmakers had imagined; and on March 8th a law was passed by Congress reducing by one-half the value of the copper coins in circulation. This was a deliberate repudiation of the public debt, for the reason that coins in the hands of innocent holders—coins which the government had issued and legalized as bearing definite values—were suddenly reduced in value by 50 per cent.

The bank co-operated effectively in the matter of adjusting the reductions ordered in the copper currency; and there were some who hoped for a development of its functions. But the times were not ripe—after a few years of

uneventful experience, it was extinguished by a law dated September 23, 1842. Thus, for twelve years, this anomalous institution had maintained itself in a country where no institution was long calculated to survive. The chief point of interest lies in the fact of its existence.

For ten years nothing further was heard of a national bank for Mexico, but, in April, 1853, Manuel Escandón presented to Congress a project for a national bank. It was proposed that it should administer the principal taxes and exercise a number of the functions usually attributed to state banks. It was to be capitalized at P6,000,000, P4,000,000 to be paid in cash and P2,000,000 in notes or bills. It was to be chartered for twenty years, and it was to open for the government a credit of P9,000,000 a year under certain conditions.[1]

But nothing came of the suggestion—nothing could come of any banking proposal on account of the turbulent conditions which everywhere prevailed. There is scarcely anywhere a chapter so hopelessly confused as that dealing with Mexico during the ten years following Escandón's suggestion. Politics—complicated through partizanship and church—and economics were inextricably muddled. During the decade there

[1] *Memoria de Hacienda*, 1870, p. 406.

were a number of supreme rulers of Mexico, but there was not, for a single year, the semblance of a national budget. It was as though the land had fallen into a financial shambles. The most fragmentary figures only are to be found in the Hacienda. The struggle between the Reactionaries and Liberals had been bitter, and the triumph of Benito Juarez, of the Liberals, was destined to be brief enough; for Mexico's neglect of her foreign debt obligations laid open the way to the joint intervention of Spain, England, and France.

Singularly enough, out of the struggle that ensued Mexico was to rise to higher and better things political, economic, and social. For a time, under the French intervention, the country experienced a peace it had not known since 1810. Considerable foreign capital was imported into the country, industries were founded, and the first bank of modern Mexico was established.

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I

EARLY STAGES OF BANKING AND FINANCE

MEXICO'S troubles at home and abroad have been the direct fruits of internal anarchy. The service—interest and amortizations—on the two London loans of 1824 and 1825 was suspended from the first through failure of revenues due to the universal collapse of the activities of the country. In 1831 interest maturities were funded; but during the next six years, with trifling exceptions, no moneys went out of Mexico to meet amortizations and coupons.

In 1837 a general refunding of foreign flotations was effected; however, down to 1850 the charges on this debt had slight attention. In this latter year a general funding of the public debt, interior and exterior, was under-

taken. So far as the interior debt was concerned, this was the first attempt to bring it into order.

The plan pursued was that of Payno, one of the big figures in the Mexican Hacienda, and his problem was most complex, carrying the confusions of thirty years. For over this interval there had been fought the wars of 1836 with Texas, and of 1848 with the United States—both traceable, in the last analysis, to anarchy at home. The dictatorship of Santa Ana was responsible for the first; and the second was precipitated through utter disregard of the claims of American citizens, and through Mexico's attitude on the question of the annexation of Texas.

Anarchy at home had been responsible for the heavy destructions of properties not only of Americans, but of foreigners of other nationalities. Agreements and diplomatic conventions alike had been entered into from time to time, and Mexico had assigned certain percentages of customs revenues and other forms of taxes to guarantee payments of her debts; but these assignments had largely been seized as the needs of the government required, and the foreign holders of the credit obligations of the country could only hope for better days, which were indeed far off. Under Juarez,

President of the Republic, in July, 1861, a law was passed suspending for two years the customs assignments pledged to cover the foreign debt. It was at this stage that England, Spain, and France, after vainly protesting, executed the Treaty of London (1861), and prepared to exact their just dues by force of arms.

Without going into the merits of the case, intervention became a very real thing in Mexico. In 1863, England and Spain having withdrawn, France was left alone in the enterprise. French armies overran the country, Maximilian became Emperor, and Mexico soon was experiencing peace of a character unknown for fifty years. A new era was dawning for the country, for it may be said—whatever the vices of the Empire may have been—that with its overthrow and the execution of Maximilian Mexico did not sink back to the level of political and economic chaos existing prior to intervention. Indeed, industry and commerce took on new life under the stimulus of foreign enterprise and capital.[1]

As evidencing a better state of things, in 1864 a bank opened its doors in Mexico City. It was a branch of the Bank of London, Mexico, and South America. Its manager, William Newbold, on June 22, 1864, complied with the

[1] Labastida, *Leyes Federales*, p. 528.

Code of Commerce of 1854 and had his bank legally recognized. Its protocolization was completed by judicial action March 2, 1865.[1]

The parent bank, with branches in Mexico City and Lima, was located in London. It was not a strong bank in point of capital, for even in 1877 its capital was rated at only £500,000 with assets of £2,195,903.[2] But it was well officered, and so was the branch in Mexico. Indeed, it required clever manipulation to escape the imbroglios of Mexican factions. The bank at all times held aloof from political affiliations, and its perfect neutrality was respected until very recent years. For example, when a forced loan was declared in April, 1867, the Banco de Londres was exempted.[3]

The English government, which had recognized Maximilian as Emperor of Mexico, could scarcely have been cognizant of the plan on the part of the London Bank to open offices in Mexico. Had it been, the scheme would likely have been discouraged. The experience of English investors in Mexican mines and securities had been most unsatisfactory, but despite this the branch was opened, and for seventeen

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[1] Labastida, *Leyes Federales*, p. 529.

[2] Gavito y Macedo, *La Cuestion de Bancos*, Mexico, 1885, pp. 123–124.

[3] *Memoria de Hacienda*, 1870, p. 704.

years—if exception is made of the insignificant Chihuahua banks—it remained the only banking institution in the country. It carried on its operations—issuing notes, receiving and paying deposits, transferring funds overseas, and educating the people to the uses of credit institutions. Soon after the opening of the bank, bills, or notes, were issued for the first time in the history of Mexico, if exception is made of the abortive attempt of the government in 1823 to float a fiat paper currency issue of P4,000,000. The people, from questioning the bank's notes, came to be appreciative of the service rendered. The bills soon were universally accepted, and the bank quietly gained momentum. It weathered a stiff run in the 'seventies and gained still further prestige, but, wisely enough, during the tempestuous years following intervention it moved cautiously, in keeping with British tradition.

An event of prime importance came to pass when Porfirio Diaz, in 1876, gained by force of arms the headship of the Mexican state. The country was soon to get down on a peace footing, but the needs of the Treasury were as clamorous under Diaz as ever they had been under his predecessors. However, he approached the financial problems with sympathy and in-

telligence. He was ready to welcome enterprise which looked to the betterme conditions. Profiting by this disposition doubtless inspired by the successful c tion of the Banco de Londres, the o in charge of the Monte de Piedad be anxious to enlarge the scope of their in tion, which thus far had enjoyed an hon reputation.

The Monte de Piedad already referred t been authorized by Carlos III, King of S under *Cédula* of June 2, 1774. It was o as an institution in Mexico City the foll year, with a capital of P300,000. This been provided by Pedro Romero de Ter a Mexican who had made a fortune in m and who, in consequence, had been cr Conde de Regla. Its founder, who once been penniless, intended to erect a char institution designed to make loans to the classes. These loans were to be for terms and to be secured by pledges. They to draw no interest; but the recipient favor, on its repayment, was supposed mate its value and leave accordingly a cover it. Strangely enough, however donations, in the view of the directors, w sufficiently generous; so, in 1782, soo the death of the Conde de Regla, they

to make charges on loans. This charge was to be made on a basis of 12 per cent. per annum on loans perfectly secured.[1]

For some years the Monte de Piedad confined its operations to small transactions. Later it received judicial and confidential deposits, exacting in some cases a small charge for safeguarding them. In 1849 a savings department was opened, in which 5 per cent. was paid on deposits. Besides, it undertook a number of strictly trust operations, as, for instance, it entered into an agreement with the French Minister in June, 1883, binding itself to receive 25 per cent. of the import and tonnage dues assessed against French ships arriving at Mexican ports, and to remit these funds to France for the purpose of liquidating Mexican obligations to French subjects under diplomatic conventions. The profits of the Monte de Piedad increased, and in 1877 its capital had reached P1,000,000, with assets of P2,500,000. It now began to make loans in a maximum of P2,000.

The various governments which came and went in Mexico had found it necessary from time to time to intervene in the affairs of the Monte de Piedad. But on the whole, for a hundred years its operations were carried on

[1] Labastida, *Leyes Federales*, p. 534.

with a degree of continuity unknown in any other establishment in the land.

Briefly we have scanned the salient facts in the history of the Monte de Piedad up to the coming of Diaz. Its record had been most honorable, but its management now conceived that it was playing too insignificant a rôle in the financial affairs of the country. The directors became ambitious, feeling, doubtless, the stimulus of the incipient "boom"; and they sought to enlarge the activities of the institution. On September 6, 1879, a resolution was passed by the board asking authority of the Mexican government to issue certificates, payable to bearer on demand, in sum equal to the specie deposits of the Monte de Piedad. Negotiations with the government were closed October 6, 1879. President Diaz approved the plans [1]—and in effect the Monte de Piedad became a bank authorized to receive deposits, to negotiate discounts, and to issue notes—paper currency—redeemable at par and on demand, which the government obligated itself to receive in its offices. In short, the government put itself behind the currency issues of the Monte de Piedad, which was a weighty point gained. Through subsequent decrees the institution obtained the right to issue bills up

[1] Labastida, *Leyes Federales*, p. 534.

to a maximum of P9,000,000—a right, fortunately, it never exercised. In some respects the Monte de Piedad now came to enjoy privileges quite beyond those of the Banco de Londres, its only competitor—particularly in the matter of government recognition. To have its notes received in the public offices was the next thing to making them legal tender.

In the mean time, while the Monte de Piedad was breaking away from its old anchorage, far north of Mexico City and entirely independent of the influence of the Banco de Londres or of the Monte de Piedad, there sprang up in Chihuahua two small banking institutions. The first of these, founded in November, 1875, was known as Santa Eulalia. It bore trace of American antecedents, spite of the Scotch name of its founder, MacManus. At first it operated as a private bank. Later it was duly chartered. It was authorized to receive deposits, and was permitted to issue notes repayable in silver pesos at 8 per cent. discount—or if redeemed in copper they were to be paid at par. It will be recalled that the problem of copper coinage had been perplexing to the country, and the discrimination allowed in the redemption of bills is but an additional bit of evidence as to the monetary confusion prevailing.

Slowly, however, general conditions improved. There was peace, first of all; then, foreign capital was flowing in rapidly; mines were being opened and railroads constructed. But despite this, when Diaz, on December 1, 1880, retired from the Presidency—succeeded by Manuel Gonzalez—the condition of the Treasury was serious. Not only were there deficits from budgetary operations, but interest and amortizations had accumulated on the foreign debt to an embarrassing total. What is more, some of the foreign powers were not in amiable mood, and force might again be applied in an effort to exact long-overdue payments on the public debt.

Discouraging as the situation appeared in many of its aspects, as a matter of fact the country was entering upon the greatest era in its history. As the year 1880 drew to its close Diaz could look about him with pride on his achievements. First of all, peace had been imposed on the country, and a state of economic and social well-being everywhere prevailed such as Mexico had not before known. On the score of financial institutions, in his farewell address of December 1, 1880,[1] he referred to the Monte de Piedad.[2] He stated with evident satisfaction that this institution had been au-

[1] *Address*, Mexico, 1880, pp. 34.

[2] *Address*, p. 10.

thorized to issue bills and to carry on discount operations. He boasted that from July to the middle of November, 1880, the Monte de Piedad had discounted bills amounting to P381,883; and that its circulation had increased between June and November 15th by P845,360. He was frank to say that the government had extended its protection to the Monte de Piedad on account of the thousands it had succored.

He made no reference to the Banco de Londres, but he did refer to a plan for a national bank.[1] It was proposed that P1,000,000 of precious metal should be used in the creation of its capital, but the details were left undeveloped.

No one saw more clearly than Diaz the need of the financial regeneration of Mexico. He realized that the progress of his country was dependent on such evolution. He had accordingly, on June 8, 1880, appointed a commission to study the problems of banking and to unravel the complications of the public debt. This was, indeed, a most important step, and marked the beginning of the great banking development of the country, and of an intelligent approach to a solution of the budgetary problems of the state.

[1] *Address*, p. 42.

II

THROUGH THE CRISIS OF 1884

THE close of the year 1880—which ushered in the administration of Gonzalez—found in Mexico four banks: Monte de Piedad; Banco de Londres, Mexico y Sud America; and two insignificant institutions in the state of Chihuahua, Bancos Santa Eulalia and Hidalgo. The capital invested in these institutions was small in the aggregate, and the notes in circulation did not exceed P3,000,000; but already their influence was felt throughout the Republic. In fact, the question of banks was attracting so much attention that one of the early proposals of De la Peña, Minister of Hacienda, dealt with the matter of the organization of three distinct type of credit institutions.[1] They were to be as follows:

1. Rural banks dedicated to the support of agriculture;
2. Mining banks for the assistance of mining;
3. A national bank (Banco Nacional).

[1] *Memoria de Hacienda*, 1880-81, p. 173.

With respect to the first, it was generally recognized by those in authority that some type of bank which should concern itself directly with the farmer was of primary importance; and it may be added that during the next thirty years efforts were made from time to time to supply this deficiency; and we shall have need to take count of these cases in the course of this study.

On the score of banks organized for the purpose of assisting the mining industry we shall find that this idea, too, has suffered no diminution of interest. The recent plan for a general banking law, introduced and debated in the Mexican Congress in the spring of 1819, provided for a distinct type of mining bank. This is not unreasonable, for the whole of Mexican history has been vitally bound up with the mining industry.

As for the Banco Nacional it was proposed by De la Peña that there should be three distinct departments: 1, mining; 2, discount; 3, deposit. It was planned that there should be co-operation on the part of the state, not only in the contributing of capital, but in general. In short, the institution was supposed to undertake the essential functions of a state bank. It was expressly stipulated that the government should at all times exercise supervision over the institution.

Mexico was now on the point of embarking on an intensive period of economic and financial expansion. The country, for the first time in two generations, was experiencing peace; and the normal reaction to such condition gave birth to the first conspicuous industrial period in Mexican history. Preparations soon were under way for the organization of several banking institutions. On August 16, 1881, a concession was granted to Edward Noetzlin for the Banco Nacional Mexicano; on February 18th of the following year Edward L'Enfer was given a concession for the organization of the Banco Mercantil, Agrícola é Hipotecario; and on March 21st a concession was granted Garay and others to establish the Banco Hipotecario Mexicano. We shall deal with these in turn.

The shareholders of the Banco Nacional Mexicano were, in the main, identified with the Franco-Egyptian Bank. The capital of the bank was fixed within the limits of P6,000,000 minimum and P20,000,000 maximum, with authority to begin business when P3,000,000 had been paid in. For each million of capital, or cash, the bank was permitted to issue P3,000,000 in notes, payable in specie to bearer on demand. These notes, while not admitted as legal tender, were, nevertheless, to be accepted for all payments in the offices of

the government. Such recognition was to include only the notes of the Monte de Piedad, which already had acquired that right. And this monopoly granted the Banco Nacional Mexicano was to run for the life of the concession—thirty years. Branches and agencies were authorized, and the government agreed to make use of them in its Treasury operations. The bank was to be allowed, in return, a ¼ of 1 per cent. charge for its services. The capital of the bank was to be free from taxation of every character, except for occupation or land taxes (*predial*), and a modified stamp tax. It might export, free of duty, the necessary moneys wherewith to make payment of dividends on its foreign-held shares. In case of civil war the government agreed that there should be no seizures of money or goods belonging to the bank. From the viewpoint of the administration, a most important clause in the concession was that which carried the agreement of the bank to open with the Hacienda a credit account of from P200,000 to P400,000 per month—or a maximum of P4,000,000 per fiscal year. The interest charge was to range from 4 to 6 per cent. If the government had a credit balance the bank was to pay interest on it.[1]

[1] Lavalle, *Instituciones de Crédito en Mexico*, 1809, pp 13–14.

in the sum of three times the volume of its cash and security holdings, and to issue cash bonds to bearer or order—under the supervision of an intervenor for the government.[1]

The Banco Hipotecario Mexicano, under concession of March 21, 1882,[2] had a capital of P800,000, and its operations were to be limited to making mortgage loans in the Federal District and in the territory of Lower California. Since this was the first mortgage bank in the country, and since it has survived to the present day, let us examine briefly its proposed functions.

It had the right: (1) to emit bonds to order or bearer; (2) to issue time cash bonds; (3) to make loans to individuals and corporations on real estate; (4) to administer for a time properties acquired through foreclosure; (5) to buy and sell agricultural products and machinery on commission.

It could make loans on real estate not in excess of 50 per cent. of its value—first mortgages only. In August, 1888, the concession of the bank was modified and the title changed to Banco Internacional é Hipotecario. Its field was extended to cover the whole country, and its board of directors might be divided

[1] Labastida, *Leyes Federales*, p. 541.
[2] *Memoria de Hacienda*, 1883-84, p. L.

between Mexicans and foreigners; also, certain operations were enlarged, as, for instance, it was now possible for the bank to open current accounts to depositors; and, in effect, it became something more than a mortgage bank.[1] It was also authorized to make loans for the improvement of public or private property. Here we find a distinct anticipation of the leading feature of the Banco Refaccionario, with which we shall presently deal.

At the end of 1882 there were in operation in the Republic a mortgage bank (Hipotecario Mexicano) and five banks of emission: the Banco de Londres, Mexico y Sud America; Banco Nacional Mexicano; Banco Mercantil; Banco Mexicano, and the Banco Minero of Chihuahua.

The two latter had been founded respectively under state legislative authority of March 7, 1878, and July 31, 1882.[2] On November 25, 1883, the Banco Santa Eulalia—which originally had opened as a private institution—took on legislative warrant. Added to these was the insignificant private bank of Hidalgo, also in Chihuahua. There was now quite a little group of banks in that far northern state, and their organization is largely to be traced to the

[1] Labastida, *Leyes Federales*, pp. 537–540.
[2] *Memoria de Hacienda*, 1884–85, p. 39.

enterprise of English-speaking citizens who had made their way into that country and who already had come to control, to a certain extent, commerce and finance. The name of MacManus came to be well known to the overland traders from Texas into Mexico. The Banco Minero grew up under the influence of the prominent Creel family, which played a conspicuous part in the later political and financial fortunes of Mexico.

With remarkable spontaneity banks here and there opened their doors, now under state authority, now under federal. The situation was anomalous, clearly proving the need of banking institutions; for they were coming into existence with no clearly defined legal safeguards—a situation inherited from Spanish times, for Spain had had no laws dealing with corporations. While the so-called Mexican Code of Commerce of 1854 had recognized corporate entities, its rules had long since fallen into disuse. It was inevitable at once that thinking men should realize the urgent need of a commercial code, and such code was soon indeed to be formulated.

Things were thus marching at a rapid pace, due to railroad-building enterprise and the inflowing of foreign capital. The far greater quota of capital now invested in Mexico was

from the United States. The movement of Americans into that country, carrying with them their properties, was but a continuation of the great economic flood-tide which had opened up the Mississippi Valley and the Western states for settlement. Moving steadily with the procession went railroads, and soon they had penetrated to the utmost limits of the country. Besides, the wave of industrial expansion in the American states easily overflowed the narrow Rio Grande, and soon practically every source of wealth in Mexico felt the touch of new life.

The Monte de Piedad, the Banco de Londres, Mexico y Sud America, and the Banco Nacional Mexicano began to scatter their branches in the leading cities of the Republic; deposits rose with unprecedented rapidity. On account of the sums of money which accumulated in the vaults of the banks operating in Mexico City, these institutions became sharply involved in competition. One of the first results of this was the lowering of the interest rate from 12 to 6 per cent.; and another result was an undue expansion of credits. This was particularly unfortunate, for large sums were put out in long-time or mortgage loans. By the middle of 1882 the banks had so far impounded their credits that there began actually to develop a

stringency in the money market, with the result that interest rates climbed back to their original positions, and beyond. But further than this, a general retrenchment in trade ensued.

From November, 1882, to early spring of the following year the tension continued unrelaxed, and in March alarming reports began to be circulated with respect to the condition of the Banco Nacional Mexicano. A run was started on that institution, and it was saved only through the support of the Banco de Londres and the Banco Mercantil. The pressure exerted on the Banco Nacional Mexicano was chiefly through the redemption of its notes, and in this connection the two banks mentioned came valiantly to the rescue and continued unhesitatingly to cash the notes of the embarrassed bank. The run was stayed in a day, and the situation saved.

In the mean time over the year 1882 a controversy had been going on between the Monte de Piedad and the Banco Nacional Mexicano. Mutual jealousy and distrust were in evidence, for the Monte de Piedad had embarked on a strenuous banking career. It was both receiving deposits and issuing its notes under acts of September 6, 1879, and of February 12 and July 5, 1881. It had not been slow in

getting its notes into circulation, and by August, 1881, its totals outstanding reached P2,414,860. But the situation of the country was so satisfactory and things were so flourishing that deposits in all the banking institutions of the country mounted rapidly. By the end of 1881 the specie in the vaults of the Monte de Piedad exceeded P4,000,000; but by May 1, 1882, while the notes in circulation totaled P4,168,360, specie holdings had declined to P3,178,165. The Monte de Piedad had involved itself in mortgage loans and purchases of property, and, in short, had invested goodly sums in securities not susceptible of early liquidation.[1]

Such condition, of course, meant trouble for the Monte de Piedad. It managed, however, to weather the rather panicky March days, when its rival came so nearly to succumbing, but its position turned worse over 1883, as the depression deepened in all lines of activity. Panicky conditions prevailed throughout the world. The effects of the curtailment of capital for Mexican industries, which had been so freely supplied from the United States and foreign countries, soon came to be felt universally.

By the early spring of 1884 the situation of the Monte de Piedad came to be hopeless,

[1] Lavalle, *Instituciones de Crédito en Mexico*, pp. 15–16.

and it may be added that the situation of the Treasury of Mexico was in equally precarious plight. The government, spite of the more or less desperate case in which the Monte found itself, continued to borrow from it; and by April 29th, the date of its closing, owed the institution P550,705, a debt which had not been fully paid even so late as 1892, when a balance due was disclosed of P49,125.[1]

The banks of the capital were not ignorant of the condition of the Monte de Piedad, nor were they surprised when a run was started. And well enough they knew what effect would follow its closing, hence they exercised themselves to the utmost to save it. Specie was actually advanced by the Banco Nacional Mexicano in a total of P232,000, and for two days, at the height of the run, the banks continued to receive the notes of the Monte de Piedad in a futile attempt to keep open its doors.

The Monte suspended specie payment April 29, 1884, and the public was thrown into panic. There were still outstanding notes approximating P2,000,000, therefore, in order to stabilize things—the other banking institutions were suffering from incipient runs—the government, on May 1st, issued a decree stipulat-

[1] *Memoria de Hacienda*, 1891-92, p. 72.

ment in its financial emergency. The question of accessibility of credits was one which appealed then, as now, to the political leaders. Of this there is evidence enough in the relations of the government with the Monte de Piedad and in the requirements fixed in the charters of banks, as, for instance, in that of the Banco Nacional Mexicano. The money the government had borrowed of the Monte de Piedad, and those sums promised—and which were daily being advanced by the Banco Nacional Mexicano and by the Banco Hipotecario Mexicano—were of vital concern.

Truly, the impoverished Treasury was partly responsible for the panicky state of things in the country at large. The annual revenues of the country had fallen by at least P3,000,000, and heavy arrears were due through past fiscal operations, particularly in the form of subsidies to railroads. Besides, there was a large floating indebtedness held by clamorous and persistent creditors. Finally, more than 87 per cent. of the customs dues had been assigned to secure the public debt, while the revenues from a number of sources were mortgaged to the Banco Nacional Mexicano to cover its loans to the government. The receipts from the national lottery and from the direct taxes in the Federal District were also

hypothecated to the Banco Nacional Mexicano. The mints of the country were mortgaged to their lessees in a total of almost P2,500,000, while some of the public buildings were soon to be mortgaged to the Banco Hipotecario for more than P1,000,000.[1] The economic situation was serious in the extreme. The low price of silver had depressed the mining industry; crop failures for two successive years had raised unduly the prices of agricultural products; and all industry suffered in the general demoralization.

Considering the situation as a whole, the Gonzalez administration did indeed carry forward a progressive program with respect to banks. While it is true that banks came into existence without government initiative, it is nevertheless true that the government fostered them in all possible ways. It realized its responsibility in the premises, however, and came trailing after, enacting measures calculated to catch up the ends of things. Says De la Peña, Minister of Hacienda:

> Feeling the necessity of passing a general law for banks, the Congress of the Union . . . authorized the Executive by act of December 15 [1883] to promulgate a Code of Commerce which should include the general

[1] Barrera Lavalle, *Las Instituciones de Crédito de la Republica*, Nos. 1 and 2, vol. xxxiv, *El Economista Mexicano*.

bases to which banking institutions must conform. In the exercise of this authority the Code was issued, and under heading 13 the principles were laid down for the control of banks.[1]

The Code of Commerce to which De la Peña referred, promulgated April 20, 1884, had been preceded in the course of Mexican history by one published in 1854 under the direction of Santa Ana, the dictator of Mexico. That code was, in its day, a rather interesting document. One of the chief reasons underlying its enactment is found in Santa Ana's tax scheme, which was designed to serve his centralized form of government.

The code of 1854 was divided into five sections:

1. That dealing with merchants and agents of industry.
2. That having to do with internal commerce.
3. That touching maritime trade.
4. That concerning bankruptcies.
5. That dealing with the administration of justice in business operations.

A few paragraphs in the code dealt with the instruments of commerce. There were rules regulating the circulation of bills payable,[2]

[1] *Memoria de Hacienda*, 1883-84, p. LI.
[2] *Código de Comercio de Mexico*, Mexico, 1854, pp. 75-77.

and rules defining loosely the relation of depositor and receiver of funds.[1] Also, it must be added that the question of drafts received due consideration. The rules for the drawing of the instrument, for its acceptance, fixing the responsibility of indorser, and the matter of protest—all had careful attention.[2]

There is ample evidence of the fact that the new Code of Commerce of 1884 was drawn by men who had before them Santa Ana's code of thirty years earlier. But great changes had come over the face of things in Mexico during the interval, and the code prepared under Gonzalez[3] dealt far more intelligently with the subject-matter than did that of Santa Ana. For the purposes of this study we shall confine ourselves to that section of the code which refers to credit institutions. However, it may be well to say that the preliminary article refers to all the inhabitants of the country who engage in commerce as being subject to the Code of Commerce; that they are Mexican in character, and can make no appeal to other jurisdictions.[4]

At the outset of the article dealing with

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[1] *Código de Comercio de Mexico*, Mexico, 1854, pp. 79–80.
[2] *Ibid.*, pp. 83–104.
[3] *Código de Comercio de los Estados Unidos Mexicanos*, Jalapa, 1884, pp. 306.
[4] *Ibid.*, p. 8.

banking matters the following paragraph appeared:

> Banks of emission and circulation, discount, deposit, mortgage, agriculture, mining, or for any other commercial purpose, cannot be established in the Republic without the authority of the Minister of Hacienda, in the judgment of the Executive, and without complying with the requirements and conditions established in this code. [1]

It was a categoric statement, and left nothing in doubt with respect to what was proposed to be done by the administration. The Code then continued, and the following large fundamentals were announced:

1. Only corporations with at least five shareholders could be established.
2. Banks must have a minimum capital of P500,000, with 50 per cent. paid up in Mexican coinage prior to opening. The balance of the capital must be paid in by instalments within a year.
3. Banks were forbidden to own land except for buildings. If necessary to acquire real estate in the foreclosure of debt, the same must be sold within two years unless a mortgage bank were in-

[1] *Código de Comercio de los Estados Unidos Mexicanos*, Jalapa, 1884, p. 171.

volved in the transaction, in which case five years were allowed.

4. When the bank shall have been organized, and the by-laws approved by the Minister of Hacienda, it could open; notes could be issued in no case in excess of the paid capital.

5. To emit notes the bank must make a deposit in gold or silver Mexican coin for one-third the total of the notes proposed for issue, or make a bond to cover the whole amount—at the option of the bank.

6. This guarantee deposit is to be made in the Treasury, whence it can be withdrawn only by substitution of like sum in bonds of the public debt, or by replacing it with a bond, or through the retirement of the notes in circulation, or by order of a judge in charge of a failed bank for payment of notes.

7. In case of the funding of the public debt through the issue of new securities the money on deposit for the guarantee of notes may be converted into the new bonds.

8. All notes must be inspected and stamped by the Minister of Hacienda before being put in circulation.

9. Notes have not the status of legal tender (*curso forzoso*).

10. All banks are required to keep in cash one-third of outstanding circulation. Deposits at three days' sight or thirty days' time must be deducted from the balances prior to making calculation of one-third reserve requirement.

11. Banks were forbidden to hypothecate their notes, to make loans on their own shares of stock, to establish residence outside of the national domain.

12. Monthly statements were required, which were to be published in the *Diario Oficial.*

13. An intervenor for each bank was to be appointed to report on the conduct of the bank, especially with regard to compliance with the terms of the code.

14. "No banking association or individual established in a foreign country can have in the Republic agencies or branches authorized to cash the notes which it emits, regardless of their form."

15. "No individual or association not authorized by the terms of this code shall emit certificates, notes, or in-

struments promising to pay in cash at sight to bearer, whether in the form of notes, deposit receipts, or any other form." There was a penalty attached to infraction of this rule of 10 per cent. of all sums issued.

16. "Associations formed in foreign countries to undertake the establishment of banks in the Republic, of whatever character, must organize themselves in accordance with the terms of this code; not only they, but the shareholders also—who take on the character of Mexicans, without right of appeal to foreign countries in the matter of the bank—must be subject to Mexican laws."

17. Mortgage banks were prohibited from circulating notes, but could issue bonds in a total equal to the mortgages acquired.

18. Banks were given the right to sell mortgaged property immediately on the maturing of the note. The sale was to be made by the intervenor to the highest bidder.

In addition to the above articles, which constituted the skeleton of the banking section of

the code, there were important transitory rules which were intended to cover the period during which it was hoped that all banks in the Republic could be brought under the control of the government. These stringent regulations were as follows:

> The banks of emission and circulation established in the Federal District, as well as those established in other parts of the Republic without previous authorization of the Congress of the Union, may no longer emit nor circulate notes, save under the conditions set out in the following articles.

The conditions referred to have been set out above. Penalty for non-compliance with the code brought liquidation upon offending banks.

The Monte de Piedad was regarded as a state institution. All other banks in the Republic, save the Banco de Londres, Mexico y Sud America, and the Chihuahua banks, were operating under the approval of the Mexican Congress. What the government had now succeeded in doing was not to force uniformity on the banks of the country, but to bring them under federal supervision. This was the big point gained, but much remained to be done. Whether the banking institutions existing by right of law in the Republic, and in contravention of the code, could be brought under its

terms was a problem which only the future could determine. At all events, the Code of Commerce [1] served its purpose in checking the organization of state banks, and indeed gave a definiteness to credit institutions hitherto unknown in Mexico.

[1] The section of the Code of Commerce of 1884 dealing with banks is largely contained within pp. 171–172, 178. The Transitory Clauses quoted are found on pp. 291–293.

IV

ORIGIN OF THE BANCO NACIONAL

IT is not a little significant that the preparation and promulgation of the Code of Commerce were coincident with the final negotiations for the consolidation of the Banco Nacional Mexicano and the Banco Mercantil. Just what part these banks played in the matter of the code we may not know, but the government was relying upon them for advice and support.

Intimate relations had sprung up between the directors of these two banks during the run on the Banco Nacional Mexicano; relations were further cemented during the troubles of the Monte de Piedad. In fact, the crisis in the affairs of the Monte may have hastened the signing of the agreement of consolidation on April 2, 1884. This contract was approved by the Mexican Congress, May 31st, and on that day the government availed itself of the credit which had been granted by the consolidated bank. It also set about preparing certificates

covering 15 per cent. of customs dues[1] assigned as security.

But the completed union of the banks was not realized until after the reform of the concession of the Banco Nacional Mexicano and the fulfilment of the conditions of the contract on June 3d following, with respect to the increase of the capital to P20,000,000, 40 per cent. paid. Thereupon the Banco Nacional de Mexico came into existence and the Banco Nacional Mexicano and the Banco Mercantil disappeared.

The Mercantil, during the crisis of 1884, had acquired considerable holdings of bills of the Nacional Mexicano, and its efforts to support the strained situation were warmly appreciated. The Nacional Mexicano had excellent foreign connections, whereas the Mercantil had a strong alliance with the commercial and industrial elements of the Republic. This combination appeared most admirable; and further, on account of the amassing of capital and the unusual talent assembled, the union gave promise of a brilliant future.

The question of the reformation of the concession of the Banco Nacional Mexicano was under consideration by the government for some time. The matter was definitely involved

[1] *Memoria de Hacienda*, 1883-84, p. 232.

with the fusion of the two strong banks, and led to a warm discussion in the Mexican Senate. The problem was whether one large bank, with exclusive rights of issue, etc., was better than two or more. At all events, the advocates of the single institution were successful, and on May 15, 1884, the reformed charter was signed.

It will be recalled that the original concession to the Banco Nacional Mexicano had been granted August 16, 1881; that it had been approved by the Mexican Congress on November 16th following. The terms of that concession we have briefly canvassed heretofore. The essential stipulations of the modified charter were as follows:[1]

1. The name was changed to the Banco Nacional de Mexico, with domicile in Mexico City, and authorized to create branches and agencies throughout the Republic. The capital, within six months, was to be increased to P20,000,000—40 per cent. minimum to be paid—and the bank was authorized to issue notes three times the volume of the precious metals contained in its vaults. Notes were to be of denominations ranging from P1 to P1,000.

[1] *Memoria de Hacienda*, 1883-84, pp. 203-08.

2. There were to be two government intervenors named to supervise the emission of notes and the general operations of the bank.

3. The notes issued were to be received by the government in all its offices, but were not legal tender.

4. The bank was to open to the government an account current, to run from P6,000,000 to P8,000,000 per year. A mutual interest rate of 6 per cent. was adopted, the charge to be entered daily. For its part, the government was to secure the bank with certificates of importation for its advances, and the accounts were to be balanced January 1st and July 1st.

5. In return for these concessions the government obligated itself not to establish any new banks of emission in the Republic, and those then established must comply with the terms of the Code of Commerce of April 20, 1884.

6. The bank became the government depositary for money, securities, and metals, for trusts, etc., in all its branches. On deposit of securities or metals, the bank was to receive as fee ½ of 1 per cent.

No charge was to be made for receiving cash on deposit.

7. The bank was charged by the government with looking after the public debt, interior and exterior. The bank was to receive funds destined for the payment of interest and amortizations, and was to make payments to bondholders. The commission for this service was to be arranged on each occasion.

8. The government agreed to make exclusive use of the facilities of the bank and its branches.

9. The federal authorities should not receive in payment of taxes the notes of any other institution of credit now established, or to be established, other than those of the Banco Nacional de Mexico—or paper money of any other sort. Exception was made for three years to the notes of the Monte de Piedad.

10. The bank was made exempt from all taxes except the *predial* (real estate), and a modified stamp tax.

11. The clause we have seen before with respect to war dangers was also included.

12. Secrecy of accounts and business was guaranteed. Information was to be given only on judicial order. The directors of the bank must have had five years of residence in Mexico, and the bank was to be considered a Mexican corporation, even if its shareholders lived abroad.

13. The concession and contract ran for fifty years.

14. The increase of capital provided for came with the absorption of the Banco Mercantil.

15. It was agreed that if the consolidation of the Banco Nacional Mexicano and the Banco Mercantil was effected, the notes of the Banco Mercantil should continue in circulation unless the combined totals of the notes of the two institutions should exceed the limit fixed by law. It was further agreed that the notes of both banks were to be retired within two years—that is to say, they were to be substituted by notes of the Banco Nacional.

16. It was provided that the bank could not, under any circumstances, be sold to a foreign government. Monthly reports of condition were required.

The month of April, 1884, is memorable for the consummation of the consolidation of the Banco Nacional de Mexico and the Banco Mercantil, for the promulgation of the Code of Commerce, and for the crash of the Monte de Piedad. Events had hurried on breathlessly. The facts are that, while the code was being prepared, negotiations for the union of the two banks were progressing, and the terms of the contract between the government and the new bank were being discussed. These facts must be considered as being directly related to one another. Also, there was bound up in the considerations the problem of the fiduciary currency in circulation.

Distinctly in the background, too, loomed the need of the government for financial support. So clearly is this evidenced that President Gonzalez, by decree of January 9, 1884—in consummation of an arrangement—ordered the delivery to the Banco Nacional Mexicano of customs dues certificates (*certificados de importacion*) in a total of P5,761,000, to cover a provisional loan to be advanced by the bank in weekly instalments. This decree was issued under warrant of laws of May 26 and December 14, 1883.[1] These certificates were required in all customs payments—and took on

[1] *Memoria de Hacienda*, 1883-84, p. 192.

the character of forced admittance to the customs offices and the offices of *internacion* (an internal tax on goods).

Up to February 29th 35 per cent. of all dues were ordered to be paid in these certificates; but from March 1st the ratio was to rise to 45 per cent. The bank was to put the certificates in the hands of its agents in the ports, where they were readily available. They were to be sold at par, and any infraction of the rule was to be severely punished.

The borrowing operations of the government went still farther. On February 22, 1884, loans were made from the Banco Nacional Mexicano, Banco Mercantil, and the Monte de Piedad. The total of these loans approximated P1,288,660, against which certificates of importation were issued as security.[1] And four days later the Mercantil agreed to advance an additional P1,535,000, and received certificates as security.[2] Besides, coincident with the final agreement on the terms of the new concession to the Banco Nacional, a loan of P4,000,000 was granted to the government.

As mentioned above, the question of the consolidation of the Banco Nacional Mexicano and the Banco Mercantil aroused unusual in-

[1] *Memoria de Hacienda*, 1883-84, pp. 197-198. [2] *Ibid.*, p. 198.

terest in the Mexican Congress. There was a division over the proposition as to whether a large central bank, with exclusive powers, was preferable to a multiplicity carrying on similar functions. De la Peña, the Minister of Hacienda, reported that the fusion of the two banks had the sanction of the public, and that conditions, internal and external, warranted the establishment of "a bank capable of facing successfully any emergency, of systematizing amply and securely the fiduciary currency." Then he went on to say:

> Without pronouncing absolutely in favor of one or the other system, the Executive believed that in the present situation a multiplicity of credit institutions, without some guaranties to the public, might be subject to grave upheavals and to the danger of bankruptcies, which would drag down great and small fortunes, thus compromising the dearest interests of society. He considered also, having in mind the conditions of the Republic, that the banks now operating, all of which enjoyed the confidence of the public, had ample resources to carry on the operations for which they were designed. They were sufficient to aid commerce, the mining and agricultural industries, and to render fruitful the national wealth. For all of these reasons, the stipulations proposed by Eduardo Noetzlin, representing the Banco Nacional Mexicano, for the reform of the concession of that establishment were accepted; and on May 15, 1884, a contract was signed, careful, nevertheless, that its

...ulations should not be construed to carry exclusive ...ts against credit institutions being constituted in ... future with powers of emission.[1]

With the enactment of the Code of Commerce, Mexico had prepared the way for a great advance in banking. The grounds were cleared, in a sense, and made ready for the pioneers who soon were to troop in with their investments. The union of the Banco Nacional Mexicano and the Banco Mercantil was a prime event in the financial history of the country, for not only did its influence affect business to the borders, but the fact of its organization directly modified the attitude of European capitalists toward Mexican problems.

The matter of the public debt, which had gone for so long largely in default, at once reflected in the markets a more favorable estimate of the financial situation. It was, indeed, a great deal to have an institution with almost P10,000,000 in capital and surplus agreeing to look after the details of the debt. In the eyes of creditors at home and abroad, this could have but one ultimate effect, and it is to the great credit of Gonzalez and his advisers that they entered upon the way of sound readjustment of the obligations of the government. The pressure of foreign creditors had

[1] *Memoria de Hacienda*, 1883-84, pp. XC-XCI.

been unremitting, and Congress had enacted a law on January 14, 1883, authorizing President Gonzalez to make some arrangement of the public debt. He had set about this, but with little success, for the government was on a deficit basis. Besides, because of the serious economic condition of the country, nothing could be done toward paying outstanding commitments. Nevertheless, on June 10, 1884, a contract was made with Edward Noetzlin, of the Banco Nacional, conferring on him power to arrange the foreign debt. He soon entered into an agreement with the English bondholders; however, because of certain conditions carried in the agreement, it required the sanction of Congress.[1] There it was much debated, but nothing resulted for the moment; the whole matter was left to Porfirio Diaz, who soon was to take up the threads on returning to power as President.

The administration of Gonzalez terminated December 1, 1884. A brief résumé of its achievements with respect to banks may well be in order. When Gonzalez came into office, there were in operation in the Republic only the Banco de Londres, Mexico y Sud America; the Monte de Piedad, and two small banks in Chihuahua. When he retired there were in

[1] *Memoria de Hacienda*, 1884–85, pp. 12–13.

existence, in addition, the powerful Banco Nacional, the Banco Hipotecario Mexicano, Banco de Empleados, and two small banks in Chihuahua. While the latter were in no direct sense related to the federal system, they were already feeling the power of the central authority; for the Code of Commerce had caught them and they were doomed in the end to bow to its mandates.

It is a striking fact that the Code of Commerce of 1884 contains not only the rules governing in the realm of banking for the next thirteen years, but also the bases on which Limantour later erected his state banking system. The provisions relative to banks of emission and to mortgage banks were substantially incorporated in the law of March 19, 1897, and little was added in the way of fundamentals.

On June 30, 1884, there appeared the first public financial statement of the condition of banks in Mexico. It is not without interest, foreshadowing, as it does, the larger unfolding which soon was to appear.

The Banco Hipotecario Mexicano, it will be recalled, had been granted a special concession. Its operations were soon to disclose the difficulties it had need to surmount in order to achieve success. The chief of these lay in the

inability of the institution to dispose of its bond issues. Ten years after this first statement was made public there had been no great change in the totals outstanding. The details of its first report follow:[1]

RESOURCES

Capital unpaid	P3,200,000
Bonds unissued	1,000,000
Loans	1,811,503
Cash	42,074
Bills receivable	708,600
Current accounts receivable	133,726
Total	P6,895,903

LIABILITIES

Capital	P5,000,000
Bonds	1,770,900
Current accounts payable	125,003
Total	P6,895,903

The Banco de Empleados, with concession bearing date of June 12, 1883, had been opened for business October 23d. With an authorized capital of P500,000, it had paid in but P64,670; cash in vault totaled but P819. Its situation must needs have been more or less precarious, spite of the fact it had put in circulation no

[1] *Memoria de Hacienda*, 1883-84, p. L.

notes, although authorized to do so. The details of the statement are here given.[1]

RESOURCES

Capital unpaid	P435,330
Cash	819
Bills receivable	102,537
Current accounts receivable	21,200
Total	P559,886

LIABILITIES

Capital	P500,000
Current accounts payable	59,886
Total	P559,886

By comparison, the Banco Nacional looms powerful in the extreme. With capital paid of P7,499,500, cash resources of P2,890,274, and current accounts receivable in excess of P9,000,000—it could reasonably feel comfortable facing deposits and current accounts payable of P6,788,195, and notes in circulation of P4,341,377. But it was not a strong position, and probably never again in its history was the bank actually caught in so weak a condition. The details follow:[2]

[1] *Memoria de Hacienda*, 1883–84, pp. LI–LII..

[2] *Ibid.*, p. LII. The statement of the Banco Nacional here set out carries an error of P500,000. We have no way of determining whether it is on the resource or liability side. The table is given as officially published.

RESOURCES

Capital unpaid	P12,500,000
Cash	2,890,275
Portfolio	4,718,732
Secured loans	1,020,023
Current accounts receivable	9,393,424
Furniture and fixtures	288,000
Total	P30,810,454

LIABILITIES

Capital	P20,000,000
Notes in circulation	4,341,377
Current accounts payable	6,788,195
Reserve	180,882
Total	P31,310,454

Such, then, was the showing made by banks publishing statements at the end of the administration of Gonzalez. During the four years of his incumbency, the assets from a few hundred thousands had mounted to almost P40,000,000. In short, the country had entered upon a new era, not only in its political, but in its economic life, and the part played by banking in the evolutionary processes was most significant.

V

DUBLÁN AND THE BANKS

WHEN Diaz took over the Presidency of Mexico from Gonzalez December 1, 1884, he brought with him into the Department of Hacienda a man of ability—M. Dublán. His predecessor had been De la Peña, who had labored seriously and ably for the betterment of national budgetary matters, and for the improvement of banking conditions. Splendid results had been achieved, particularly in the latter enterprise, and the promulgation of the Code of Commerce marked a great advance on the way to sound business development. But we have had occasion earlier to review and appraise the substantial results flowing from the enlightened administration of Gonzalez. The roads were blazed in every direction. It merely remained to follow and improve. Dublán proved himself adept in this; but his was no light undertaking.

The needs of the Treasury were clamorous, and he bent himself to the task of providing

funds for operating expenses. One of his first acts was to reform the contract of the Banco Nacional, whereby the bank released certain of its assigned taxes in favor of the government; and some modification was made in the agreement with respect to the handling of the public debt.[1] And the relations of the government with the Banco Nacional were destined to grow more intimate and vastly more vital.

We have heretofore scanned briefly the main clauses of the Code of Commerce dealing with banks, which surely marked a great sweep in advance, so far as legislation was concerned. But was it possible under prevailing conditions to put the measure into operation? Clearly, it was not. The law became effective July 20, 1884, and six months later, according to its terms, those banks operating without federal sanction, and which had not conformed to the law in respect of fiduciary circulation, were to be penalized by fines and thrown into the hands of the government for liquidation.

In the belief that they had legal warrant for their functioning, or through inability to comply with the terms of the code, none of the banks caught in the net of the law had attempted to retire its outstanding circulation. And none had been brought to conform to its

[1] *Memoria de Hacienda*, 1884-85, p. 101.

mandates. The banks involved were the Banco de Londres, Mexico y Sud America and three banks in Chihuahua.

On January 18, 1885, just twelve days before the date set for putting the law to the test, the Banco de Londres petitioned President Diaz to be exempted from the application of the provisions of the code. This petition was promptly refused, and on January 20th the government intervened. The notes of the bank were to be retired and the bank itself liquidated. But the bank at once sued out an injunction (*amparo*). The matter was carried to the Supreme Court, which body, on June 17th, rendered a verdict in favor of the bank, basing its decision on provisions in the Constitution of 1857 and subsequent legislation.

In the mean time the Chihuahua banks, through Enrique Creel, had presented their case and had secured an extension of ten months in which to retire their notes.[1]

While the government had apparently been defeated in its chief purpose of forcing all banking institutions under federal supervision, the law had undoubtedly been of great service; for in many cities of the Republic individuals and firms were floating notes based wholly on credit. Effective steps were taken to suppress

[1] *Memoria de Hacienda*, 1884–85, pp. 39–40.

this positive menace to the economic stability of the country. In this work of tracing and denouncing the emitters of notes, the Banco Nacional was alert and rendered a real service. But the energy with which it pressed its case against the Banco de Londres may have been partly inspired by business rivalry. There developed an acrimonious controversy between these two banks, the dispute turning chiefly on the question of right to emit notes.[1] The Banco Nacional endeavored to bring the government to enforce the conditions of the code and the terms of its concession, which would have meant the suspension of the powers of the Banco de Londres to issue notes. In effect, it doubtless would have meant the closing of the bank.

The Banco de Londres was not the only one attacked—other banking institutions which had quietly crept in were also assailed. They were charged, and perhaps justly, with evading the conditions imposed by the Code of Commerce. On the other hand, it must be said that these institutions had complied with the law of the country at the time of their organization, and ought, therefore, to have been exempted from the application of ex post facto laws. In the case of the Banco de Londres, the Supreme

[1] See *La Cuestión de Bancos*, by Indalecio Sanches Gavito and Pablo Macedo, Mexico, 1895 pp. 123 *et seq.*

Court held that the position of the bank was well taken. The case of the Chihuahua banks was distinct; they were operating under special state concessions, differing among themselves; and all were in violation of the agreements of the federal government with the Banco Nacional. Perhaps it was to be expected that the Banco Nacional would insist on the government's interposing in the premises, but Diaz was too astute to go violently about so delicate a matter; for the line of demarcation between federal and state authority had still to be fixed. Besides, the vested interests of bank and client might not be ridden over rough-shod. Diaz preferred to let these financial problems work their own solutions. Time would cure them.

The results of the enactment of the Code of Commerce, as we have seen, were not all negative. On the face of it, there had followed failure—none of the banks directly affected by its provisions had been brought wholly under the supervision of the government. Nevertheless, the quiet pressure of the law, and perhaps of public opinion, was destined soon to bring definite results. The attitude of the Banco de Londres had always been neutral with respect to politics. The bank had held aloof, but that times had changed was evident when, on June 23, 1885—only a few days after win-

ning its injunction suit and apparently beating down the government's effort to control it—a contract was made with President Diaz to sell the amortized nickel coins abroad on a 3-per-cent. commission. At the same moment, it agreed to loan the government P150,000 at 8 per cent.[1] But this course brought no final respite. The Banco de Londres—still exposed to the attack of the Banco Nacional and public criticism—made its plans to take on a different character.

The Banco de Empleados, chartered in 1883, with power to emit bills, had made small progress; and on May 11, 1886, it had changed its title to Banco Comercial, at the same time amending its charter to provide for the establishment of warehouses and the making of loans upon wares.[2] But this bank clearly was doomed after the statement published June 30, 1886, which showed a capital of only P72,600, with cash in vault of only P44.16.[3] It is not surprising, therefore, that on August 21st the government was informed by Iturbe, the head of the bank, that his concession had been sold to the Banco de Londres. Six days later the government approved the transfer on the condition that the Banco de Londres should henceforth consider itself bound by Mexican laws

[1] *Memoria de Hacienda*, 1884–85, p. 41.
[2] *Ibid.*, 1885–86, pp. XXIX-XXX. [3] *Ibid.*, p. 357.

and the Code of Commerce. The attitude of Diaz was clearly indicated when he permitted the bank at once to violate the law which prescribed that only two pesos of bills might be issued for each peso held in cash. In making the transfer under the concession of the Banco Comercial, the bank at once was permitted an outstanding excess of notes in a total of P893,-727.[1] And the bank was allowed, furthermore, to exchange a new series for the old notes in circulation; and eight months were stipulated for the conclusion of the operation.

The first statement rendered by the Banco de Londres under its new relations with the government—and the first one published in Mexico—was of October 31, 1886, and is as follows:[2]

RESOURCES

Portfolio	P1,051,068
Current accounts receivable	1,407,951
Property	55,900
Cash	1,318,517
Total	P3,833,436

LIABILITIES

Building for capital	P1,000,000
Current accounts payable, and deposits	1,348,412
Notes in circulation	1,485,024
Total	P3,833,436

[1] *Memoria de Hacienda*, 1886–87, p. LII.

[2] *Ibid.*, p. LIII.

By June 30, 1887, the circulation of the Banco de Londres had increased P31,000, but the cash on hand had been augmented by approximately P600,000; and deposits had increased by almost P500,000. By way of contrast, the following statement of the Banco Nacional, as of July 31, 1886, may prove enlightening, disclosing, as it does, its marked pre-eminence:[1]

RESOURCES

Capital unpaid	P12,000,000
Cash	7,642,761
Portfolio	4,554,312
Secured loans	1,034,566
Current accounts receivable	12,285,327
Furniture and fixtures	295,001
Total	P37,811,967

LIABILITIES

Capital	P20,000,000
Notes in circulation	8,191,297
Current accounts payable	8,988,891
Reserve	631,779
Total	P37,811,967

By July 20, 1888, the Banco Nacional[2] had established nine branches and twenty agencies in the leading cities of the Republic. Through these ramifications, it was able better to carry

[1] *Memoria de Hacienda*, 1886-87, p. LV. [2] *Ibid.*, 1888-89, pp. 10-11.

into effect its contract with the government of June 15th, in which it undertook to retire the old coins: tostón, peseta, real, half-real, cuartilla, and tlaco. Under Acts of May 10, 1886, and October 18, 1887, the decimal system in monetary matters had been definitely adopted, and the old coins, which had come down from the Spanish régime, were to be supplanted. The costs were, of course, to be borne by the state; and further, the government agreed to bear the loss resulting from the acceptance of light-weight pesos.[1] It was no small undertaking, but the Banco Nacional pressed forward with it and eventually the task was done.

The experience of the government with the banking institutions of the country was so eminently satisfactory that Congress, in the spring of 1888, passed a plenary act authorizing President Diaz for two years to grant concessions for the organization of credit institutions wherever it was deemed expedient. The time limit ran from June 1, 1888, to June 1, 1890.[2] Such a grant of authority was almost without precedent, and it is evidence of the hold Diaz had upon Congress. It may freely be said that these two years were among the most active in the history of banking in that country. However, if criticism is made of the great lack

[1] *Memoria de Hacienda*, 1887-88, pp. 188-190. [2] *Ibid.*, pp. 151-152.

of uniformity observed in the terms of concessions, some blame must attach to those responsible for the feverish movement extending over the next two years.

About the time the Banco de Londres was being transformed under the concession of the Banco Comercial, which it had purchased, the Chihuahua banks were also bestirring themselves because of the interference of the Code of Commerce. In May, 1886, Carlos Pacheco appeared before Dublán, Minister of Hacienda, to work out a *modus vivendi* for these institutions.[1] And one was arranged, but each was a temporizing measure only. The final step of conforming to the federal law was taken by the Banco Santa Eulalia—which had opened its doors July 31, 1875—when, on March 15, 1888, a concession for fifteen years was granted by President Diaz. Under the terms of this concession, the name of the institution was changed to Banco Comercial de Chihuahua. The reformed charter called for a minimum capital of P500,000. The bank was given the right to issue notes three times its volume of precious metals. But at no time could the outstanding issue of notes exceed the capital stock. It is interesting to find that the bank was empowered to issue notes for denomina-

[1] *Memoria de Hacienda*, 1885-86, p. XXX.

tions, as low as 25 centavos, a fact evidencing the great scarcity of small coins in the country. Furthermore, the bank agreed to retire all its old notes by June 30, 1889, and, where they were payable in silver, the bank was to retire them at 8-per-cent. discount. The bank was to have the right to substitute new bills for old, when they had been properly certified by the intervenor of the government. It was also made a part of the contract with the bank that it should set aside 5 per cent. of its earnings to a reserve fund. The institution was exempt from all taxation, save a special stamp tax.[1]

While the reform of the Santa Eulalia was going on, under date of June 1, 1888, concessions were approved for the reformation of the Banco Mexicano and the Banco Minero, also of Chihuahua.[2]

The Banco de Chihuahua, with charter dated December 19, 1883, from the state of Chihuahua, was granted on December 15, 1888, a concession from the federal government similar in all respects to that for Santa Eulalia.[3]

With the conversions of the Chihuahua group of banks, and with the earlier transfer of the Banco de Londres, the banks in the Re-

[1] *Memoria de Hacienda*, 1888-89, pp. 61-63.
[2] *Ibid.*, 1887-88, p. 152.
[3] *Ibid.*, 1888-89, pp. 45-47.

public had at length been brought under the rule of the Code of Commerce, or of the federal government. Thus, in the space of five years, the uniformity which Gonzalez and De la Peña had sought was a thing attained; and the ground was prepared for the great advance of 1889–90. In a statement of Dublán's,[1] in his *Memoria* for 1888–89, he referred to the fact that the Executive had been authorized by law of June 1, 1888, to undertake certain reforms in the realm of banking. He referred to the concession of the Banco Hipotecario Mexicano. He also developed further the idea that it was desirable to establish other banks to aid in the development of industry and trade. The concession of the Banco Hipotecario Mexicano was reformed in several vital respects, and concessions were granted for the establishment of agricultural banks in Puebla and Yucatan. In his report, Dublán also referred to the authority under which he had reformed the Chihuahua banks. He mentioned the fact that the Banco Nacional had adhered strictly to its arrangement with the government in the matter of looking after the service on the public debt, and to the withdrawing from the markets of the old coins; and that it had carried on punctually its current-account ar-

[1] *Memoria de Hacienda*, 1888–89, p. XXXVII.

rangement with the Treasury. It was at this time, too, that the Banco de Londres modified its charter, a matter we shall discuss a little later.

The charters granted the two agricultural banks, above referred to, bear dates of April 10, 1888 (Banco Agrícola é Industrial de Puebla), and May 24, 1888 (Banco Agrícola é Industrial Yucateco). The concessions for these institutions were practically similar in all respects and served as models for a number that followed. These banks were empowered to make loans to farmers and manufacturers. They were allowed to sell agricultural and manufactured products on commission. They were permitted to buy in foreign countries on commission, machinery, seeds, and other things necessary in the development of agriculture and industry. It is worthy of mention that the authorities realized the great need for financial support in these two great departments of human activity. But, strange as it may appear, while a number of banks were chartered to meet this express design of the Diaz administration, not one of the type can be said to have been successful. We shall have reason to take up this topic in another chapter.

VI

HIGH TIDE OF BANK CONCESSIONS

THE activity of Dublán was extraordinary, and his success in budget as well as banking matters was remarkable, when contrasted with the chaotic periods which had preceded. His efforts to bring all banking institutions of the country within reach of the federal authorities had borne excellent fruit. What De la Peña and Gonzalez had conceived was carried into effect by Dublán. His zeal, however, might have brought on trouble but for the steadying arm of the courts. So eager was he that all banking institutions should adhere strictly to the Code of Commerce that his attack on the Banco de Londres and the Chihuahua institutions, might easily have thrown them into liquidation with evil consequences.

Four years had been required to clear the ground for the great wave of banking concessions which was to follow through the years 1889–90. When Congress had empowered President Diaz to create as many banks as

he deemed expedient, during the period of two years, there was inaugurated in Mexico an intense campaign for the securing of bank concessions. The movement received its impetus through the tremendous profits which banks had made. Of course, politics played its part, but favoritism was scarcely carried to undue lengths.

According to the *Memoria de Hacienda* for 1888–89, four banks filed statements as of June 30, 1889,[1] showing assets of almost P63,000,000. The banks reporting were the Banco Mexicano, Banco Minero, Banco de Londres, and the Banco Nacional. A consolidated statement may be of interest. (See page 66.)

The details of these statements carry comparatively few items of interest. It is to be noted that the capital of the Banco de Londres is still figured at P1,000,000, and that sum was the estimated value of its building. The two Chihuahua banks reporting indicated clearly that they were endeavoring to retire their old currency issues and that they were making substantial progress. The total of notes in circulation had now risen to P20,500,000, which pointed as an infallible index to the great increase in efficiency of banking arrangements, and to substantial economic progress throughout the country.

[1] *Memoria de Hacienda*, 1888-89, pp. XXXVIII–XXXIX.

RESOURCES (in pesos)

Banks	Capital Unpaid	Cash	Bills Receivable	Secured Loans	Current Accounts Receivable
Banco Mexicano.	.....	69,710	287,182	208,222	781,272
Banco Minero...	.....	131,850	994,378	.....	216,751
Banco de Londres	.....	3,459,538	4,381,743	.....	2,713,020
Banco Nacional..	12,000,000	11,112,137	12,051,824	981,660	12,877,093
Total.....	12,000,000	14,773,235	17,715,127	1,189,882	16,588,136

LIABILITIES (in pesos)

Banks	Capital	Notes in Circulation	Current Accounts Payable	Reserve	
Banco Mexicano	750,000	185,128	414,658	.....	.....
Banco Minero	555,000	217,810	566,169	4,000	.....
Banco de Londres	1,000,000	5,369,624	4,184,748	.....	.....
Banco Nacional..	20,000,000	15,158,766	12,656,032	1,386,217	.....
Total.....	22,305,000	20,931,328	17,821,607	1,390,217	.....

The following year, in addition to the four banks above noted, three more filed statements. They were the Banco Yucateco, Banco Mercantil de Yucatan, and a branch of the Banco Nacional for a time enjoying the distinction of being called the Banco Nacional de El Paso, located in the city of Juarez. The combined assets of these three statements approximated P2,097,119.[1]

Dublán, who stood for the widest possible development of banking, found himself somewhat handicapped by the restrictions of the Code of Commerce. Hence, in 1889, he secured the adoption of certain amendments to the Code which practically left him free to move untrammeled in the pursuit of his purposes. He had been subjected to criticism for what is considered the unnecessary haste with which he went about the prosecution of his program. Charters for banks multiplied rapidly, and in spite of continued protests of the Banco Nacional, clauses were incorporated which conflicted both with the code and with the concession of the Banco Nacional. And these new concessions were duly authorized by the Mexican Congress. And besides, the Banco Hipotecario, a mortgage bank, which had been organized in 1883, had its constitu-

[1] *Memoria de Hacienda*, 1889-90, pp. XXXII-XLI.

tion amended so as to enable it to issue certificates of deposit, payable to bearer at sight, either in gold or silver, in Mexico, or in foreign countries. These certificates were, of course, bank-notes in character and function. Furthermore, the Minister transferred to an individual the banking powers which formerly had been granted to the Monte de Piedad, authorizing the founding of a bank in the capital which should be called the Banco de Fomento, with powers of issue. Luckily, this bank was not established, nor, indeed, did the Banco Hipotecario undertake to exercise the right to issue certificates.

In his *Memoria* for the fiscal year 1889–90, Dublán reported at length on his stewardship. During the year ending June 30, 1890, five concessions for the establishment of agricultural, industrial, and mining banks were sanctioned. They were to be located in San Luis Potosí, Zacatecas, Orizaba, Guanajuato, and Monterey. This type of bank was called Banco Agrícola, Industrial y Minero.

During the same year five concessions were authorized for the organization of banks of emission. Two were to be located at Mérida, Yucatan; the others were planned for San Luis Potosí, Saltillo, and Hermosilla.

One concession was granted for the estab-

lishment of an agricultural and industrial bank in Guadalajara, in the state of Jalisco. It will be noted that this bank varied in type from the group of five enumerated above, in that it did not include *mining* within the scope of its operations.

With respect to concessions for the agricultural, industrial, and mining banks, it may be of interest to discuss them briefly on account of the importance which this type of bank assumed in the general law which was to be enacted under Limantour. A comparison of the charters issued for these several institutions shows no difference of importance. As between the charters of the San Luis Potosí and Zacatecas banks, there is only one clause in which variation is noted—to wit, that having to do with the deposit of P30,000 with the Hacienda. This sum was left by each as a pledge to secure the fulfilment of the concessions. In the case of the San Luis Potosí Bank it was to be forfeited at the end of four months, provided the conditions had not been complied with. The bank of Zacatecas escaped such summary proviso.[1]

The important requirements in these concessions may be set out more or less briefly. First of all, there was a minimum capital

[1] *Memoria de Hacienda*, 1889–90, pp. 340–49.

stipulation of P500,000, and banks were authorized to begin operations when 50 per cent. had been paid in. The balance was to be paid within a year. Banks were authorized to establish branches and agencies within limited regions, ranging from two to three of the Mexican states. These banks were obliged to create a 5-per-cent. reserve annually until 20 per cent. of the capital had been attained. Besides these general requirements, there may be enumerated the following.[1]

1. Banks were expressly committed to the proposition of procuring capital for, and of making loans to, farmers, manufacturers, and miners, with time limit not to exceed one year.

2. They were to make loans on lands and contracts, subject to mortgage, with interest at 6 per cent., for ten years.

3. They could make amortizable loans providing for annual payments, including interest, on a basis of twenty years. No annual payment was to exceed 10 per cent. of the sum loaned. Borrowers had the right to pay the bank in cash or bonds of the bank at par.

[1] *Memoria de Hacienda*, 1889–90, pp. 341–44.

4. Banks were authorized to make loans on agricultural products, manufactured articles, and animals left on commission; but such loans were not to exceed in time one year.

5. These banks were permitted to open *accounts current* with farmers, miners, and manufacturers, secured by mortgage or collaterals.

6. They were authorized to receive deposits and to make proper distribution of funds.

7. They might undertake the sale of products, or export the same.

8. They were authorized to purchase on commission domestic or foreign machinery, seeds, and raw products needed by farmers, miners, and manufacturers.

9. They might undertake on commission the collection of accounts.

10. They were permitted to buy for themselves, or for others, shares of other banking institutions.

11. They might contract for the work of clearing or the improving of lands, the exploitation of mines, and to augment the agricultural, mining, and manufact-

uring output on a basis to be established by the boards of directors.

12. They might administer properties which came into their hands through foreclosure until the same were disposed of.

13. They were empowered to emit cash bonds for terms varying from three months to three years, bonds to be payable to bearer.

14. The law provided for government intervenors, for monthly statements and extraordinary examinations. These banks were exempt from taxation, except a form of stamp tax. They were also exempt from tax on precious metals exported to pay interest on shares. They were exempt from government confiscations in case of war, and were forbidden to sell concessions to foreign governments. They were to acknowledge their Mexican character under all circumstances.

No better evidence can be found of the altruistic disposition of the Diaz régime than in the articles of the banking concessions of the type above described. It required men of imagination to devise so excellent and yet such hopeless charters. To have thought that this

type of institution was fitted to advance the agricultural, industrial, and mining conditions then prevailing in Mexico was one thing; but it required flights of imagination indeed to picture its materialization. Mexico was a raw country in the extreme, sparsely settled, and with a comparatively impoverished population. Moreover, the people were unacquainted with banking institutions. Recognition of the need of such a type of institution was one thing, but quite another to bring such institution into being. Perhaps even more difficult would have been the problem of sustaining it, granted the possibility of its having begun operations. One thing they saw clearly—that foreign capital was indispensable. This is shown in the provision for paying dividends on foreign-held shares.

It is to Limantour's credit in the matter of purpose rather than judgment that when he came to design one of the three types of banks for his general law, he took the charter above discussed and made it the basis for his Banco Refaccionario. A little later we shall have occasion briefly to remark the points of difference between the two.

By the year 1890 there had developed considerable interest in the question of establishing a system of banks for the Republic. The

Minister of Hacienda had been engaged in the study of a number of plans. That which Dublán finally decided upon was similar in some respects to the national banking system of the United States, and was clearly patterned after it. He mentioned that his scheme contemplated the issue of notes, secured by a deposit of government bonds, the basis of issue to be P4 of notes to P1 of bonds. It is perhaps fortunate that this immature scheme of Dublán's failed of materialization.

It is impossible to separate banks from the general economic machinery of the state at large. The feverish activity which we have witnessed was short-lived. The economic pressures which had been put upon the government had in no real sense relaxed. It must be recalled that even Diaz thus far had failed in his efforts to readjust the public debt, both interior and exterior, and that the condition of the Mexican Treasury was desperate enough. Nor may we lose sight of the fact that the low price of silver, together with the disorganizations agricultural and mining, had been slow to yield to the new course of things. On account of world-wide depression, Mexico could not, at the time, hope for outside assistance. Besides, Mexican credit had been, and was still, at a low ebb, and while the organization

of the Banco Nacional—with its assumption of guardianship of the public debt—tended to better the outlook, the time was not yet come for money-lenders to contend in the markets for Mexican paper.

So serious was the situation of the Hacienda that President Diaz, in his turning about, summoned to his assistance Matias Romero, the great historian of Mexican public finances. And Romero brought with him into the office of the Treasury a man whose wisdom was soon to extricate the administration of Diaz from its embarrassed position. This was José Yves Limantour. The combined efforts of these two men, Romero and Limantour, were brought to bear on the financial problems; for the Treasury was utterly depleted. The Banco Nacional, during the fiscal year 1891–92, had advanced the government more than double the amount agreed upon;[1] and yet, so serious was the state of the Hacienda, that the President was brought to consider the proposition of issuing Treasury notes under the recommendation of Romero.[2] Perhaps, fortunately, these notes were not put in circulation.

During the following year, 1892–93, the importance of the rôle of the Banco Nacional in the fiscal operations was most apparent. It

[1] *Memoria de Hacienda*, 1891–92, pp. 10–11. [2] *Ibid.*, pp. 24–25.

acted as agent for the government in the flotation of the first foreign loan under the Diaz administration. It also made advances to the government totaling, June 30,1893, P5,962,639; the rate of interest was 10½ per cent.[1] Spite of the high earnings, the situation for the bank was uncomfortable, as is clearly shown in its cash account. From July 31, 1891, to June 30, 1893, its cash in vault disclosed a loss of P4,041,974.[2] This could not go on indefinitely, and yet the government must be succored.

To illustrate the conditions of the banks in the Republic at this date—which is important in that now the Hacienda had come to be dominated by Limantour as Minister Matias Romero having been returned as ambassador to Washington—a condensed statement of all the banks reporting as of June 30, 1892, follows:[3]

RESOURCES

Capital unpaid	P14,400,000
Cash	19,926,967
Furniture, etc	544,162
Mortgage loans	2,541,518
Portfolio	28,636,262
Secured loans	2,354,793
Current accounts receivable	26,007,656
Total	P94,411,358

[1] *Memoria de Hacienda*, 1892-93, p. XXXIII. [2] *Ibid.*, pp. 422-423.
[3] *Ibid.*, 1891-92, p. 300.

LIABILITIES

Capital	P32,780,000
Notes in circulation	24,387,697
Bonds	1,497,300
Current accounts payable	31,691,849
Reserve	4,054,512
Total	P94,411,358

The total resources of the banks of Mexico in the above statement approximate P94,462,-097, which shows a considerable growth over the grand summary for the year 1889. Notes in circulation over the three years had increased by P4,000,000; the cash assets by P5,000,000. Of the cash resources of banks, the Banco Nacional and the Banco de Londres carried P18,000,000 of the approximately P20,-000,000 of gold and silver in vault

The banks now actually in operation numbered twelve, provided a distinct character is given to the branch of the Banco Nacional located in Ciudad Juarez. They were as follows:

Banco Nacional
Banco de Londres
Banco Hipotecario
} located in the City of Mexico.

Banco Minero
Banco Mexicano de Chihuahua
Banco Chihuahuense
Banco Comercial
Branch of the Banco Nacional
} located in the state of Chihuahua.

Banco Yucateco
Banco Mercantil de Yucatan } situated in Yucatan.
Banco de Durango.
Banco de Zacatecas.

By the following year, due to the panic which gripped practically the whole world, cash in banks had fallen to P17,939,847. Notes in circulation had increased by almost P1,000,000; bonds in circulation by approximately P500,.000. Deposits and current accounts payable stood at P400,000 less than in the preceding year. On the whole, however, there had been a gain of nearly P3,000,000 in assets, a gain represented largely by an increase in the credit lines of the banks.[1]

Limantour, once he became Minister of Hacienda, in May, 1892, gave his first attention to the problem of bringing the budgetary estimates into balance, to arranging the public debt, and to matters of taxation. Another salutary thing he did was to put an end to the granting of concessions for the establishment of banks until such time as a general law for credit institutions could be enacted. The Minister of Hacienda was not slow to appreciate the predicament of a number of the banks. They had indeed been hard put to it in order to make ends meet during the panicky days of

[1] *Memoria de Hacienda*, 1892–93, pp. L–LI.

1892 and 1893. With singular detachment, in his *Memorias de Hacienda* covering the years 1892–93, 1893–94, 1894–95, he dismisses the subject of banks with the briefest paragraphs. His only forward-looking move was taken in the establishment of the Caja de Ahorros de los Empleados de Hacienda. The date of this concession is December 26, 1894, and it is chiefly to be distinguished on account of the high cause which Limantour expected to serve. It was organized for the employees of the Hacienda. It was a co-operative society with shares valued at P25 each; and it was permitted to begin business with 130 shares subscribed, but only partly paid.[1]

When Limantour went into office he found the employees not only of the Hacienda, but of the other departments of the government, heavily in debt and many of them victims of loan sharks. Hence, the incentive to organize his bank of savings. The employees were not, on the whole, to blame for the state of things, because the government had, from time to time, through failure of revenues, been forced either to cut their pay or to miss paying altogether. It will be recalled that the government owed at this time rather heavy accounts to its officials.[2]

[1] *Memoria de Hacienda*, 1894–95, p. XXX. [2] *Ibid.*, p. 381–383.

The Minister of Hacienda devotes twenty pages of his *Memoria* of 1894–95 to discussing the details of his Caja de Ahorros de los Empleados de Hacienda. It was chartered for thirty years and was empowered to receive deposits and to allow interest thereon. It could loan to shareholders on assignment of one-quarter of their salaries, or could make loans on securities, or on the indorsement of two persons who were either shareholders or depositors. Deposits were to be received from P1 to P500, and notice of withdrawal was required. Only shareholders might borrow, and the rate of interest could not exceed 5 per cent. A reserve was to be accumulated to aid the old and incapacitated shareholders; and the bank was forbidden to own real estate, or even to deal in it at all. No taxes were levied, save a modified stamp tax. The capital of the institution was to be supplemented through fines laid on employees in the Hacienda, and in addition, 2 per cent. of the fines imposed for infraction of the customs laws, and 2 per cent. of the fines for violations of the stamp-tax rules were contributed by the government.

By June 30, 1895, the Caja de Ahorros de los Empleados had a capital of P11,825; by December 31, 1896, this total had reached P14,179,

with subscriptions totaling P20,709. Loans to shareholders amounted to P41,824.[1]

Later, we shall have reason to take up a little further the history of the Caja de Ahorros de los Empleados. It came to be an institution meeting a real need. It was an effort toward solving the problem of personal credits. The idea was undoubtedly suggested to Limantour by the systems in operation in several of the European states. His scheme, however, was a great novelty in Mexico, and, it may be added, was the first of its kind in the New World. In this later day, the Massachusetts Credit Union law and the Credit Union laws of New York and North Carolina may be said to be carrying on the work of developing credit institutions to meet the definite needs of groups of men who have stood quite without the pale of banks.

[1] *Memoria de Hacienda*, 1896-97, p. XVII.

VII

PREPARATIONS FOR A GENERAL BANKING ACT

WHEN Limantour came into authority he found before him three large problems: the equalization of the budget; the matter of abolishing the alcabalas, the ancient tax on commerce; and the enactment of a general banking law. He attacked these problems in the order mentioned, and he was able to announce, in his *Memoria de Hacienda* for the year 1895–96, that for the first time in the history of Mexico the budget of the country stood with a balance on the credit side.[1] The alcabala taxes, too, were finally relegated to discarded tax schemes. The third large problem remained, and now that his hands were free, he set about this task with extraordinary energy.

He petitioned Congress, April 20, 1896, to authorize the President to promulgate the general bases under which concessions might be granted for the establishment and operation of banks of emission. And he announced on

[1] *Memoria de Hacienda*, 1895–96, p. III.

June 30th that Congress had acted, and that he was busy studying the proposition preparatory to issuing a general law for institutions of credit.[1]

He went on to say that since the middle of June, 1892, no concession had been granted for a bank of emission. He explained that this course had been pursued not only because of the delicate situation of affairs with respect to agriculture, commerce, and industry, and the condition of the Federal Treasury, but because each bank claimed to be operating independently within the terms of its concession —there being no general law on the subject of banking. Disputes and controversies had inevitably arisen, not only between the branches and agencies of banks, but between parent banks themselves. Added to these difficulties was a registered, formal complaint against the banks of emission made by the Banco Nacional in the matter of issuing notes. The position of the Banco Nacional was undoubtedly well taken, in point of law. When its charter of May 24, 1884, had been reformed, it was clearly the intention of the Mexican government to grant the bank unrestricted monopoly in the matter of note issue; but, with a fine disregard of commitments, the administration

[1] *Memoria de Hacienda*, 1895–96, p. XXX.

had continued freely to grant concessions in utter violation of the letter and spirit of the concession, and in contempt of the precepts of the Code of Commerce.

Limantour laid stress on the fact that this open dispute as between the Banco Nacional and the other banks with respect to the powers of issue, exposed local institutions to serious disturbance, if the Banco Nacional should discriminate against notes in circulation or should press an action at law against them severally or collectively. Therefore, in order to avoid collisions between the banks and to bolster the position of the banks themselves, he had determined upon a general law to which the banks outside of the Federal District should adhere, and to obtain from the Banco Nacional certain modifications of its concession.[1]

With these things definitely in mind, he proceeded to formulate a general law.[2] The Executive was authorized to promulgate such law, giving a general status to banks of emission in the states and territories of the Republic. The large heads under which this law would be carried were as follows:

1. No concession to be granted without a deposit of bonds of the public debt in a

[1] *Memoria de Hacienda*, 1895–96, p. 401. [2] *Ibid.*, p. 402.

total of 20 per cent. of the amount of cash required by law to be in the vault of the bank at the opening of business.

2. Minimum capital requirements, P500,000, of which sum 50 per cent. was to be paid in cash.

3. Cash in vault required to equal one-half the total number of notes in circulation, plus sight deposits and deposits on three days' notice.

4. No bank could issue notes in excess of three times its paid capital.

5. Bank-notes not legal tender, and none to be issued for a sum less than P5.

6. Provision was made for exemption from taxation for only the first bank located in each state.

7. No branch banks were to be established outside of the state in which the parent bank was located. Exceptions were to be made, however, in some cases, and branches were to be permitted in possibly two or three states.

8. Provision was made for government representatives in the banks with definite powers of supervision.

9. Statements were to be published monthly showing cash, notes in circulation, and deposits payable at three days' sight or less.

10. No concessions were to be granted until the law itself was promulgated.

The above skeleton outline discloses what was in Limantour's mind with respect to the general character of his proposed banks of emission. Laws for other types of credit institutions were to be devised, or it was thought that possibly the whole of them might be included under one. This law carried transitory articles to the effect that all banks then in operation in the states were to be considered *first* banks, provided they gave notice within four months of their acceptance of the law, and bound themselves to operate under it.

There remained, however, some delicate adjustments, not only with the Banco Nacional on the score of amending its concession, but with other banks which had begun operations with federal charters carrying broad powers. We shall have reason to see that Limantour handled all these problems vigorously but tactfully, and withal successfully.

During the almost four years in which

Limantour had served as head of the Hacienda, banking resources in the Republic had grown with fairly surprising rapidity. It may not be amiss to glance hurriedly at some of the statements during these quiet years in which no establishments were being authorized. We have had reason on another occasion to refer to the panicky years of 1892 and 1893. While the banks suffered during those years, they were quick to respond to the new tide of things which turned in 1894. A consolidated statement of June 30th of that year indicates a gain in cash over the preceding year of P9,776,896. There was an increase in note circulation of P1,875,173; but there had been a wholesome reduction in current accounts receivable of P8,148,578. The increase in cash in the Banco Nacional, of more than P6,000,000, was due, in large part, to foreign-loan operations which the bank had conducted for the Treasury. The grand total of resources for the banks reporting as of June 30, 1894, was P100,419,962.[1]

The following year saw still further progress on the part of the banks. The combined statement as of June 30, 1895, may prove of interest. It follows:[2]

[1] *Memoria de Hacienda*, 1893-94, p. 461.
[2] *Ibid.*, 1894-95, pp. 378, 379.

RESOURCES

Capital unpaid	P 14,240,000
Mortgage loans	2,817,133
Secured loans	4,167,953
Current accounts receivable	21,652,660
Cash	36,661,654
Bills receivable	29,525,040
Furniture and fixtures	867,737
Total	P109,932,177

LIABILITIES

Capital	P 33,910,342
Notes in circulation	31,316,459
Bonds	1,916,100
Current accounts payable, and deposits	36,369,286
Reserve	6,419,990
Total	P109,932,177

This great forward stride of the banks was due in large part to the influx of foreign investors and to the successful flotation of foreign loans. That of 1893, negotiated by Limantour, brought tremendous relief to the Treasury. Through this loan he succeeded in retiring a large part of the floating indebtedness of the country. While the loan of 1888 had been most significant, in that it tended to consolidate the public debt, it had brought nothing like the relief attending the loan of 1893. The

latter had produced new credits—and at a very opportune moment.

The statement of the banks as of June 30, 1896, showed further progress in practically all departments. It runs:[1]

RESOURCES

Capital unpaid	P 14,040,000
Mortgage loans	2,315,471
Secured loans	5,642,373
Current accounts receivable	24,059,493
Cash	40,587,428
Bills receivable	35,002,096
Furniture and fixtures	959,549
Total	P122,606,410

LIABILITIES

Capital	P 33,550,000
Notes in circulation	35,642,868
Bonds	1,914,500
Current accounts payable, and deposits	44,442,925
Reserve	7,056,117
Total	P122,606,410

It may be of interest to note that of the total cash exhibited, the vaults of the Banco Nacional held P28,593,450; and of the total loans in the portfolio, it carried P21,000,000; and that of all notes in circulation, it had emitted

[1] *Memoria de Hacienda*, 1895–96, Document No. 170.

P21,250,154. The Banco de Londres held in its vaults P7,093,431 in cash; its loans reached P10,473,831; and its notes in circulation footed up P9,501,476. Thus, it will be seen that these two strong institutions completely dominated the banking firmament.

While Limantour's plans were ripening, in the far northern state of Chihuahua, where, as we have seen, four banks were in operation, salutary consolidations were being effected. First of all, the Banco de Chihuahua went into voluntary liquidation, and after that the Banco Mexicano was fused with the Banco Minero, this operation being concluded January 1, 1896. The Banco Minero, dominated by the Creel interests, at the fusion reported a capital of P1,500,000, with a reserve of P250,000. It agreed to retire the notes which the Banco Mexicano had put in circulation, and it further engaged itself to withdraw from the markets its 25- and 50-centavo notes, as soon as the other Chihuahua banks should be brought into agreement. Two years was the time fixed for this operation. The fusion arrangement had been made under the direction of Limantour, and he agreed with the Banco Minero that the Hacienda would not permit further issues of 25- and 50-centavo notes. As a further consideration, the concession of the

Banco Minero was extended ten years—that is to say, its life was now fixed at twenty-five years instead of fifteen. The Banco Minero conditionally agreed to be governed by the banking law which Limantour at the moment was formulating; but specifically agreed to adhere to it during the last ten years of its corporate existence—that is to say, for the period of its charter extension.[1]

Limantour had thus begun the clearing of the ways against the launching of a general law. At the instant, too, five applications for concessions were hanging fire before Congress. Some of them had been pending for several years. These were ordered withdrawn. The holders of the concession for the Banco Pan-Americano, date of December 17, 1890, were given thirty days within which to comply with its terms.[2] The concession of the Banco Agrícola é Industrial de Mexico was annulled, the following paragraph setting out the government's case:

> In conformity with the last part of Article 15 of the concession granted to you by this *Secretaria*, and which was approved by law of April 10, 1889, promulgated the 11th of the same month and year, to establish in this capital a bank called Banco Agrícola é Industrial de

[1] *Memoria de Hacienda*, 1895–96, pp. 288–289.
[2] *Ibid.*, 1896–97, p. 257.

Mexico; and by virtue of your failure to deposit P30,000 of bonds of the consolidated debt within four months, as per article cited, to guarantee the fulfilment of your obligations, the President of the Republic has assumed the right to declare, as he does declare, null and void the mentioned concession.

The date of this annulment edict was March 16, 1897. Eight banking concessions for agricultural banks were also declared void on that date, and three concessions for banks of emission suffered a like fate.[1]

Thus Limantour, at a stroke of the pen, laid low a number of "wildcat" charters—which mainly had been taken out for speculative purposes; that is, for sale—for Mexico had indeed passed through its "wildcat" period, if such period can be said ever to have existed in that Republic. As a matter of fact, the record is very much cleaner than that through which our own country passed at a certain stage of its history. Mexico suffered no bank failures at this time.

Strictly in line with his scheme of setting things in order, the concession of the Banco de Londres was modified, as of date of August 11, 1896. The capital of this institution was increased from P3,000,000 to P10,000,000, and the life of its concession was extended to fifty years from the date mentioned.[2]

[1] *Memoria de Hacienda*, 1896–97, pp. 257–262. [2] *Ibid.*, p. 239.

A brief résumé of the history of the Banco de Londres may not be out of place. It will be recalled that on June 22, 1864, William Newbold obtained from the Tribunal de Comercio a *patente de inscripcion* for the Banco de Londres, Mexico y Sud America, domiciled in London, with authority to create in Mexico a branch of that name. Under this authorization, the bank operated in Mexico until the Code of Commerce of 1884 was issued. Two years later it bought the concession of the Banco Comercial. On account of certain doubts as to the meaning of clauses in the concession to the Banco de Empleados—which later had become the Banco Comercial, of date June 12, 1883, and May 11, 1886—reforms were enacted under date of August 21, 1889. It was at that time that the title of the bank was changed to Banco de Londres y Mexico—for our purposes simply the Banco de Londres. And thus the bank continued until August, 1896, at which time it gained from Limantour the extension of its charter as indicated above. For its part, it abandoned the right which it had to establish warehouses (*almacenes de depósito*).[1]

The capital of the bank was first reported as P500,000. On October 29, 1880, it sought au-

[1] *Memoria de las Instituciones de Crédito* for the years 1897-98-99, p. XII.

thority to increase its capital to P1,000,000; and July, 1889, its stock was brought to P1,500,000. In December, 1891, it was authorized to increase to P5,000,000; in August, 1896, its capital reached P10,000,000; and in 1899, P15,000,000.[1]

A matter of infinitely more concern, from the point of view of the government, was the necessary arrangement with the Banco Nacional whereby it was brought to relinquish its monopoly of note issue. Limantour was adroit in his negotiations, and it must be said that he worked entirely from the inside in his maneuvers. On June 15, 1896, a meeting of the stockholders was called by the Banco Nacional in conjunction with the Paris board of foreign representatives to modify the concession of May 15, 1884.[2] At this meeting the bank agreed to the establishment of banks of emission in the states and territories of the Republic, provided none was established in the Federal District. This, of course, excepted the Banco de Londres, already in existence. The life of the Banco Nacional, by virtue of this concession, was extended fifteen years; the agreement was signed September 8, 1896.

[1] *Memoria de las Instituciones de Crédito* for the years 1897-98-99, p. XIII.

[2] *Memoria de Hacienda*, 1896-97, pp. 240-241.

There were, besides, other arrangements to be made of more or less vital import. The bank agreed to receive from federal offices, in every part of the country, moneys, and to concentrate them in the capital. The bank reduced its charge from 2 per cent. to 1¾ per cent. for this service, and a contract was executed to run for ten years.[1] The bank furthermore agreed to continue to serve the government on the score of the public debt, reducing its fee from 2 per cent. to 1 per cent. on all matters touching the interior debt.[2] And, finally, the bank contracted to advance the government P500,000 per month, or P4,000,000 maximum for the year, which was approximately doubling the arrangement set out in contracts of June 30, 1888, and August 12, 1889. The interest rate was fixed at 6 per cent., and it was to be charged daily, the bank paying no interest on government balances.[3]

When Limantour had succeeded in bringing the Banco Nacional to modify its concession, he was ready to proceed in the preparation of his general law for institutions of credit. He had, indeed, already appointed a commission composed of distinguished bankers, publicists, and economists to draft a measure; and in

[1] *Memoria de Hacienda*, 1896–97, pp. 241–242. [2] *Ibid.*, p. 243.
[3] *Ibid.*, pp. 243–244.

November, 1896, the plan was presented to Congress.[1] This drafting committee was composed of the heads of the Banco Nacional, Banco de Londres, Banco Hipotecario, and such distinguished men as J. D. Casasus, J. M. Gamboa, and M. S. Macedo.

In a very interesting report to Congress,[2] Limantour recites at length and in brilliant fashion the story in particular of Mexico's financial troubles and of her efforts to reach clear sailing in the matter of her banking institutions. He referred to the Code of Commerce of 1884, which laid down rules for the guidance of banks, which rules were rendered dead letters at once because of the concession to the Banco Nacional. He also referred to the new code of 1889, which repealed the bases fixed in the earlier one with respect to banks, thus leaving the situation entirely clouded. It was, therefore, necessary for the government to take the matter in hand.[3] He debated at length the question as to whether the monopoly of note issue, or multiplicity of banks of emission, was right in point of theory. He reached the conclusion that, on account of the great scope of Mexican territory, its isolated communities favored the system of multiplicity

[1] *Memoria de Hacienda*, 1897–98, p. 223. [2] *Ibid.*, pp. 217–241.
[3] *Ibid.*, p. 219.

of banks of issue. He recited that where monopolies of note issue existed, the countries were small and with compact populations.[1]

However, he was against the absolute and unrestricted liberty of banks. The ignorance of the masses as to values and the want of confidence in banks outside the cities demanded that banking development should be closely controlled. For this reason, after the first banks were established, those which followed were to be taxed. He feared the reaction of the public against any banking measure, in case of the failure of a single bank.[2]

With singular clarity of view, Limantour foresaw the probable failure of his Bancos Hipotecario and his Bancos Refaccionario—mortgage banks, and the so-called banks of promotion. The bad showing made by them prior to his entry into the Hacienda was well known. His own words with respect to these types of banking institutions were:

> But we must not embrace the illusion that these institutions [referring to the Bancos Hipotecario and Bancos Refaccionario] will promptly multiply; that will not be until there has developed the spirit of enterprise among us, until we appreciate practically the manner of functioning of these banks and the benefits to follow from them.[3]

[1] *Memoria de Hacienda*, 1897–98, p. 219. [2] *Ibid.*, p. 220.
[3] *Ibid.*, p. 289.

It was evident from the first that Limantour expected much greater things from his banks of emission, but such expectation abated in no whit the ardor with which he pursued the idea that mortgage and auxiliary banks might be made to grow in importance in Mexico. His Banco Refaccionario was but another name for those banks which had been chartered under De la Peña and Dublán, and styled agricultural, industrial, and mining banks.[1]

The general draft of the law for institutions of credit was debated to some extent in Congress, but it received no amendments of importance, and finally, on March 19, 1897, it was placed on the statue-books of the country.

[1] We have no term equivalent to "Refaccionario." "Promotion" has been used to some extent by authorities, but the connotation of this English word does not carry the import of the Spanish. "Auxiliary" much more nearly fills the conditions, and we shall make use of this term where we do not employ "Refaccionario."

VIII

GENERAL LAW FOR INSTITUTIONS OF CREDIT

THE framers of the general law for institutions of credit had in mind a plan to develop three distinct types of bank, which, in their view, covered nearly all phases of banking activity. They were more or less familiar with these types through having come in contact with them in the Republic. They were:

1. Banks of emission.
2. Mortgage banks.
3. Agricultural, industrial, and mining banks.

The names chosen by the committee for the three classes in their new scheme were as indicated above, save that the agricultural banks were changed to Bancos Refaccionarios, or auxiliary banks. It is noteworthy that no effort was made to incorporate in the law a plan covering savings-banks. However, it is not difficult to understand the conditions which brought them to ignore so important a development in other fields of the world. There were no savings of consequence in Mexico.

It was evident to those concerned in the preparation of the law, and chiefly Limantour, that the banks of emission would predominate in point of power and influence. Therefore, the real burden of the law was to prepare a scheme whereby these banks might be freely developed, and at the same time harmonized as between state and state. No essential change was made in the bases announced for this type of bank. We have briefly dealt with these in the preceding chapter, and there is small reason for further exposition. After all, they varied little from the type of bank developed by De la Peña and fostered by Dublán.

The general provisions of the law of March 19, 1897, carried definitions of the three classes of banks. They run substantially as follows:[1]

I. Banks of issue are those which issue notes of fixed denominations, payable at par, on demand and to bearer.

II. Mortgage banks are those which make loans secured by urban and rural properties, and issue bonds secured by the same guaranty, which bear interest and are redeemable under fixed conditions and at definite dates.

III. Auxiliary banks, or banks of promotion, are those especially designed to encourage mining, agricultural, and industrial enterprises, which

[1] *Ley de Instituciones de Crédito*, March 16, 1897, Chap. I, Arts. 3–5.

make preferred loans secured by mortgage, which guarantee given undertakings, and which issue short-time bonds or certificates running for a fixed time and payable on given dates.

Among the other general provisions, the capital stock was fixed for the three classes as follows: P500,000 for the first and second types, and P200,000 for the auxiliary banks. The express authorization of the Department of Hacienda was necessary for the increase or decrease of the capital of a bank, and no corporation could be said to be organized until the capital was fully subscribed and at least 50 per cent. paid. A salutary ruling was also fixed in the requirement that 10 per cent. of the net profits should annually be set aside for a reserve until it amounted to one-third or more of the capital.

The law was emphatic in ruling that foreign institutions of credit issuing notes payable on demand to bearer were not to be allowed to open branches or agencies in the Republic for the redemption of such notes. The state banks were granted the right to issue notes in denominations ranging from P5 to P1,000, and in volume equal to twice the metallic reserves, less deposits at sight and three days' notice. But at no time might the circulation exceed three times the paid capital. They were

forbidden to make loans or discounts for a term longer than six months, to discount notes or commercial paper bearing less than two signatures of well-known solvency, to mortgage their real property or borrow on their credits, to pledge their bank-notes or contract obligations respecting them.

Banks of issue were to be established in the states and federal territories, but they were not to encroach on the Federal District, where the Banco Nacional and the Banco de Londres maintained their monopolies.

As for mortgage banks, the minimum capital was fixed at P500,000, and they were permitted to make two classes of mortgage loans, one, principal reimbursable within short periods; the other for terms not exceeding forty years, principal and interest to be paid in instalments. Mortgages were to be first liens and based on a 50-per-cent. valuation of property. In order to bolster the refaccion, or auxiliary, banks, mortgage banks were forbidden to loan on mines, forests, etc.[1] Mortgage bonds were permitted, rate of interest, dates of payment, etc., to be determined by the bank.[2] A guaranty fund, representing more than a half-year's interest payment on outstanding bonds,

[1] *Ley de Instituciones de Crédito*, Chap. III, Art. 48.
[2] *Ibid.*, Chap. III, Art. 56.

was required of the bank; and the bonds were given priority as to reserves and capital.

In addition to making loans on real estate, mortgage banks were permitted "to invest their funds in the purchase of their own mortgage bonds, or other securities of the first class"; to make loans to run not more than six months on first-class securities; to receive deposits on current account, with or without interest; to deal in exchange, and drafts of not more than six months' maturity; to buy and sell all kinds of securities; to lend on security of their own bonds as a bail or pledge.[1]

An effort was made to define the character of securities which would be regarded as acceptable. It is noteworthy that mining stocks were forbidden. Only stocks, dividend-paying for at least two years prior to date of loan and listed in the markets, were to be approved. Deposits might be received until they totaled five times the paid capital; the reserve against this liability was to be specie or bullion and readily realizable securities equal to two-thirds of the whole.[2] These banks were forbidden to issue bank-notes or any form of bank demand paper.

The mortgage banks achieved an indifferent

[1] *Ley de Instituciones de Crédito*, Chap. III, Art. 73, secs. I–VI.
[2] *Ibid.*, Chap. III, Art. 75.

success. Success here depended largely on their ability to dispose of bonds based on real estate, for, once their funds were invested, if bonds could not be sold, matters would come to an *impasse*. The very fact of success turned on an investing public, which was practically non-existent in Mexico. There was doubtless in the minds of the men who drew the banking measure the expectation that bond issues emanating from these institutions would find a ready market in Europe, on account of high interest rates. In this way it was hoped that a constant stream of funds would be created which would enable these institutions to continue their operations. And they were not wholly disappointed in their expectations of developing European markets, for, indeed, in 1910, bonds of this character floating in French markets mounted to several millions. And it may be added that they are still floating in the markets, interest as well as principal unpaid.

The minimum capital of the refaccion banks was fixed at P200,000, and it was intended that these institutions should foster Mexican industries, chiefly mining and agriculture. They were authorized to make loans not to run longer than two years; and to issue bonds to be secured by mortgage on tools, equipment, and prospective products of mines or agri-

cultural enterprises. They were also empowered to make loans on collateral under the restrictions observed by banks of emission. Treasury bonds, or *bonos de caja*, might be issued up to twice the paid capital, and time and demand deposits might be received, but they were forbidden to issue bank-notes.[1]

The law touching this type of bank was defective in several essentials and was in due course to be almost completely rewritten. In the first place, no reserve requirement against deposits had been fixed; and, secondly, the vital proposition as to priority of lien as between the mortgage and the auxiliary banks had not been clearly established. This confusion resulted in a deal of trouble, for frequently both types of bank loaned to the same *hacendado* and in the event of foreclosure there were conflicting interests. We shall find that Limantour attacked these problems with vigor.

Briefly, we have traced the large outlines of the general law. The vested interests of the private banks already established in the Republic were safeguarded, but it was decreed that they should affix to their titles the words "without franchise." It had indeed been provided as early as May, 1893, that no private institution should open for business without

[1] *Ley de Instituciones de Crédito*, Chap. IV, Arts. 88–98.

first securing the approval of the Minister of Hacienda and agreeing to conform to the Code of Commerce.

On account of the great extent of the country, its variety of natural resources, it was regarded as essential that banks should be widely sown and localized as far as possible. It was further regarded as highly desirable that destructive competition should be avoided. This was provided for in the clause of the law laying heavy burdens on any additional state bank in each several state after the *first* had been planted. This was a laudable restriction and operated entirely to the advantage of both individual and bank. In the United States, and in many states, we have had illustration of the destructive processes which forgather where banking competition is permitted to run riot. The most recent disaster of this sort is found in the history of Oklahoma, where a number of bank failures were directly attributable to competition—two or more banks having been permitted to open their doors in a city scarcely mustering capital enough to support one. Mexico was safeguarded through the wisdom of Limantour from the overmultiplication of banking establishments.

Another large end was gained through the organization of banking machinery. The par-

ent bank was permitted to establish branches very much after the Canadian system, which owned a Scotch origin. It was sound reasoning which restricted the operations of state banks to definite sections. There can be no gainsaying the fact that experience has proved that there is more virtue in the branch banking system than in the contra-distinguished, competitive national banking system of the United States. While the law in its terms did not create a monopoly protecting the first bank chartered in any state, in its operations it was tantamount to that on account of the great privileges extended. These ran over a term of years and were such as to render practically impossible future competition. Clearly it was Limantour's purpose to make the prize worth the seizing on the instant—in short, so great the inducement that the organization of banks in the several states would be pressed at the earliest possible moment.

But the granting of charters under the new law was to be done under restrictions. It was provided that the preliminary concession of a bank might be granted to not less than three individuals, and that within four months the concession must have passed to a joint stock company.[1]

[1] *Ley de Instituciones de Crédito*, 1897, Chap. I, Arts. 8–11.

Emphasis also was laid upon the importance of keeping the banks of emission closely reined. This is evidenced by the article which fixed the duration of the charter at thirty years from the date of the enactment of the law, while fifty years was the term for the two other classes of banks. The experience of the world had shown that the commercial type of bank tends more rapidly to vary in character, due to the evolutionary changes of business, than do those types of bank dealing with the more substantial forms of property, such, for instance, as real estate. Besides, the experience of France, England, and other countries disclosed that governments invariably have been able to effect better arrangements with their state banks, when occasions have arisen for the extension of charters. And so, doubtless, Limantour also had this in mind when he wrote that article in his code.

The special advantages which fell to the first bank organized in any state may be briefly summarized as follows: capital, dividends, and issues of securities were exempted from federal, state, and municipal taxation, save the tax on buildings and certain modified stamp taxes. All other banks of issue later to be organized were to be subject to all the taxes imposed by law, and a special federal tax of

2 per cent. per annum on the paid capital stock.[1]

The banking law of 1897 was admittedly a compromise, due in part to the conditions imposed through the presence of nine distinct banking institutions in the country, and partly to the fact that Señor Limantour and his advisory committee believed in localization. In short, a central bank for each state, with branches, appeared better adapted to meet the needs of the country than could a central bank of issue operating through branches. And yet, in substance, this very situation prevailed, inasmuch as the Banco Nacional and

[1] Other advantages falling to first banks were:

Stamp taxes were unnecessary on documents arising from the internal management of the bank or on documents circulating between the parent institution and its branches and agencies, conditioned on such documents not creating rights in favor of the bank or of third parties. Stamp taxes were not required on contracts between the federal government and banks, or between state governments, municipalities, and banks.

Stamp taxes were unnecessary on receipts, drafts, bills, and notes, where the business related to affairs of the federal, state, or municipal governments.

A tax of five centavos only was fixed on checks drawn by or upon a bank without consideration of the amount. This rule covered the issue of bank-notes, mortgage bonds, certificates of deposit, and treasury bonds, when put in circulation.

The fees of notaries and other persons fixed by law were to be reduced by one-third from the schedule.

The states of the Federation were prohibited from imposing any tax on banks, except on mortgage loans, where the tax of a quarter of 1 per cent. of the total of the transaction was allowed.

the Banco de Londres were both authorized under their charters to establish branches throughout the Republic; and, indeed, they had been doing this very thing, not feverishly, but deliberately, so that already the leading cities of Mexico were bound to the two parent banks in the capital, through branch establishments.

It was, then, the purpose of Limantour to create a dual system; state banks with branches independent one from the other, and a quasi-national bank with branches. Nor was the Banco de Londres to be left out of count. It, too, might extend its ramifications to the ends of the land, strengthening the banking fabric by supporting, first, the operations of the Banco Nacional; and, second, by binding the state banking institutions a little more closely together.

There developed, however, almost at once on the beginning of operations by state banks a serious defect in the system. By the terms of the law, state banking institutions were forbidden to establish agencies to emit or redeem notes in the Federal District, on account of the monopoly which had been granted the Banco Nacional. This was a contingency which had need to be met at once; otherwise the notes of the state banks of emission could not fail

to be discounted in the markets. These notes must inevitably travel beyond the borders and beyond the bounds of operation of even the branches in the several states; obviously, then, unless some uniformity of action could be developed as between the state banks and some central redemption agency in the capital, great confusion, and possibly disaster, would attend the launching of the system. The point involved was not so much as to who should eventually bear the discounts—which were in effect costs of exchange—but the whole vitality of the system itself was at stake. For, obviously, if the public could not exchange a 5-peso note of a state bank of Chihuahua for 5 silver pesos in the capital, the public would refuse to accept the note. The Mexican people had not been educated to the point of appreciating the value of paper currency; and certainly if paper currency, purporting to command the equivalent of so much silver, were in fact not such equivalent, the average man would none of it. And it goes without saying that the note-issuing prerogatives of the state banks of issue carried the essential values of their concessions.

So, in their dilemma the state bankers early conceived the notion of organizing a central bank in the capital, with a view, first, to effect-

ing the exchange operations involved in the redemption of bills; and secondly, to undertake some of the other functions of a large central bank. Such a conception at once gave birth to the Banco Refaccionario Mexicano.

IX

THE BANCO REFACCIONARIO MEXICANO

AT first it was not clear just what type of central banking institution should be established; nor was it clear how the plain terms of the law might be evaded, if, indeed, Secretary Limantour would permit such evasion. It will be recalled that under the law the state banks were debarred from maintaining agents in the Federal District. This negation had been forced into the law through the attitude of the Banco Nacional, acting within the terms of its concession. But, as in the first instance where the government granted monopoly of note issue to the Banco Nacional and ignored it in practice, by granting concessions to other banks—so now Limantour, marking the serious defect in the law, entered no objection; and the Banco Nacional, doubtless realizing the futility of protest, and appreciating the fundamental necessity of maintaining, as far as possible, a universal parity of paper currency, remained silent.

The concession of the Banco Refaccionario Mexicano was dated October 12, 1898. Its capital was fixed at P1,000,000, with domicile in Mexico City. It was empowered to establish four branches in the Republic, and others might be established if P100,000 for each branch was added to the capital of the institution. It was to enjoy tax exemption for twenty-five years, and the term of its charter was for forty years, dating from March 19, 1897. Strictly, under the law, it was entitled to a corporate life of fifty years, but on account of the contemplated character of its functioning, Limantour chose to restrict it.

With the exception of making two-year loans to miners, farmers, and manufacturers, the bank could make no loan to exceed six months, and that on two responsible signatures. The bank was permitted to issue *bonos de caja* (cash bonds) in a volume five times the paid capital. They were not at any time, however, to exceed the cash on hand plus the securities immediately realizable or negotiable. It may be interesting to note the classifications and definitions of these latter. They are as follows:

(*a*) Commercial obligations not running longer than the operations they represent.
(*b*) Mortgage bonds emitted by banks or commercial associations.

(*c*) Bonds of the Mexican government.
(*d*) Bonds or other securities quoted in the markets, or bourses of Mexico, Paris, and London, and which have paid dividends for two years prior to purchase by the bank.[1]

For five years the bank was permitted to circulate its cash bonds without limitation. After that term, a minimum of P500,000 was required to be maintained in circulation, if the paid capital of the institution remained unchanged. If, however, the capital was increased in the mean time, *bonos de caja* should be issued in a total of 50 per cent. of the sum. The bank was compelled under the law to meet the requirement of keeping its bonds in circulation on penalty of forfeiting its exemptions.

The bank was forbidden to issue notes payable at sight and to bearer, and was required to express plainly in its *bonos de caja* the time they were to run, the interest rate, and the bank was authorized to issue them to bearer or to order. The security of those handling *bonos de caja* was established in that they were made preferred creditors. Federal officers were forbidden to act as officials in the bank.

On January 28, 1899, the bank expressed a desire to modify its concession. It changed

[1] *Memoria de las Instituciones de Crédito*, 1897-98-99, p. 498.
[2] *Ibid.*, p. 499.

its name to Banco Central Mexicano, and increased its capital stock to P6,000,000. On February 16th, the bank opened with P3,000,000 of capital paid in.[1] The operation of the institution provided for close co-operation with the state banks. Its stock—P100 par value—was divided into two series, known as capital A and capital B. Of the first, there were to be 50,000 shares, and of the second, 10,000 shares.[2] The stock of series A was to be held by the public; the second could only be held by those state banks enjoying the right to be *first* banks. This relation further involved the right of the state bank to act as correspondent. In order to fix this relation of correspondent with the Banco Central in Mexico City, the state banks were required to invest in the stock of the Banco Central at least 5 per cent. of their paid capital. The stock held by the banks carried a provision to the effect that after ten years the holders of such stock might exchange it for shares A.[3]

Originally it was planned that only 50 per cent. of the stock (series B) held by the banks should be paid in, but after the Banco Central had been in operation a comparatively short time the whole subscription was called.

[1] *Memoria de las Instituciones de Crédito*, 1897–98–99, pp. 499–500.
[2] *Ibid.*, p. 500.
[3] *Ibid.*, pp. 501–502.

If there was any virtue in the alliance above indicated, it lay in the fact that the control of the Banco Central was partially left with its stock-holding banks, and under the conditions it would presuppose a management favorable to the interests of the state institutions. Unhappily, the executives from the first had entangling alliances with banks and with individuals, which were most unfortunate.

But the Banco Central did get under way, and with flattering prospects. Through powerful influences one-half of the capital of the bank was supplied through a syndicate, composed of the Deutsch Bank, Bleichroeder & Co., and J. P. Morgan & Co.—a syndicate controlling a majority of the board of directors. But these holdings were quietly passed into Mexican hands, with profits to the underwriters.

The similarity of the schemes involved in the relation of the state banks to the Banco Central and the relation of the national banks of the United States to Federal Reserve banks is worthy of remark. The similarity is more suggestive, however, than rigid; but even the functioning of the two schemes has points in common.

The Banco Central was designed to meet a definite need—and the same is true of the

Federal Reserve banks. It was merely a matter of designing the machine. Both were concerned with unifying processes. Both grew out of pre-existent situations. New types are not developed in a day. The logic of the situation lies in isolating the faulty agents and then in strengthening them by the substitution of new and more efficient machinery. But always this should be done through appropriating the known and tried, rather than the imposition or substitution of machinery unknown to the mass of men who daily come in contact with the outward facets of finance and banking.

The state banks were tied to the Banco Central not only by artificial, but by written bonds. A contract was made for a year, in which the Banco Central opened with each local bank a current account, admitting a debtor balance in a total of 10 per cent. of its paid-up capital. If this account showed a balance in favor of the local bank, 5 per cent. interest was to be allowed thereon. If it ran in favor of the Banco Central, the local bank was to pay 7½ per cent. on such balance. If the state bank maintained a balance in excess of 10 per cent. of its capital, it was to be allowed 8 per cent. on such deposit, but was to pay 9½ per cent. to the Banco Central if the latter carried a line in excess

of 10 per cent. of the capital of said state bank. Adjustments of interest were to be made semi-annually. The Banco Central further agreed to redeem at par the notes of the state banks in a total equal to the line of credit granted. The only reservation exacted by the Banco Central was that it had the right to refuse notes if presented for redemption in abnormal volume, or if there were reason to suspect the solvency of the issuing bank. The Banco Central further obligated itself to discount the bills receivable of the state banks; to buy and sell exchange on their order, levying a commission of 4 per cent. on the net profits of the transaction.

Finally, a far-reaching arrangement was entered into, in which each of the parties agreed to collect all items in the form of check or draft in their respective territories, crediting them at par. The Federal Reserve Act contemplated a somewhat similar working arrangement as between the Federal Reserve banks and their members. It is no discredit to the principle to admit that its operation in the United States has been frustrated through the opposition of the member banks, and that the clause in the law is inoperative. Nevertheless, there can be no denying the fact that far-reaching effects would follow the development in our own country of a universal parity of exchange. In this

respect and as a step toward the achievement of this higher program, the attitude of the Mexicans has been more progressive than the disingenuous position taken by the national banks of the United States.

Another far-reaching measure was outlined in the agreement between the Banco Central and its members—*viz.*, that of looking after any particular bank which became embarrassed. Provision was made for the immediate notification of the Banco Central, and for the creation of a fund in its hands by the various members equaling 50 per cent. of the capital stock of the embarrassed member, which fund was to be used to support its credit. The maximum contribution, however, by any member bank was to be 2 per cent. of its capital stock. The total credit thus assembled in the Banco Central was to be used in the redemption at par of the notes of the involved bank. If a portion of the funds collected in the hands of the Banco Central were used by the member in the redemption of its own notes, these notes were to be forwarded to the Banco Central to be held in trust for the account of the other member banks, in the ratio of their contribution to the general fund. For all of this assistance the embarrassed member agreed to pay 12 per cent. on the sums advanced and the costs incurred.

This provision may possibly have been suggested by the experience of the Canadian banks, although the method pursued in mobilizing the guaranty fund cannot be said to approach the Canadian. The plan of the latter is to create the fund against an emergency; the Mexicans, in their eagerness to raise funds, might only add to difficulties by calling for moneys at a time when payment could but be denied through the pinch of conditions.

The fund was a sort of guaranty of deposits, for each state bank assumed, as regarded every other member of the system, a responsibility to support that member within definite bounds. It was a recognition of mutuality of interests as between member banks, and a further acknowledgment of the responsibility of banks to the public. While on its face it did not bear the badge of being a guaranty of deposits law—that it was in effect. This agreement belongs very definitely to the larger field of banking evolution through which our own country has been passing. It marks a stage in an evolution which bore fruit in the enactment of guaranty of deposit laws in five states of the Union, and which gave us finally the great Federal Reserve Act and the Federal Farm Loan Act.

The Banco Central, notwithstanding it had

undertaken several excellent things in relation to the state banks, was still in a high sense not a central bank. The matter of acting as agent in the Federal District for the redemption of the notes of state banks was a primary function, without which co-operation or some redemption agency all such notes would have circulated at a discount or have failed totally of currency in the markets. It was also a praiseworthy engagement to which it committed itself in the matter of discounting the bills receivable of the state banks within definite limits.

The fundamentally weak spot in the structure of the so-called Central Bank came from the fact that there was no law requiring the state banks to maintain reserves of any character with the Central Bank, nor was any provision made whereby the Central Bank could protect itself in the event of an unprecedented demand from its members. It was inevitable that the Banco Central would expand its credits in an effort to make dividends for its stockholders, and that when the time came and pressure was exerted for the extension of general credit lines, the Banco Central would find itself hopelessly involved, with no powers of expansion. There was a lack of elasticity which cribbed and fixed its operations, rendering it helpless in emergencies.

This fundamental weakness was all too evident to the men who drafted the Federal Reserve Act. They required member banks to maintain certain percentages of reserves on deposit with the Federal Reserve banks; and, furthermore, provision was made that these latter banks, when they had reached the limit of their own resources, might issue notes on the basis of the bills receivable which member banks had rediscounted. It was thus made possible at once for the Federal Reserve banks to exercise practically unlimited control over member banks, and also to be of all possible service; any bank which kept in its portfolio certain classes of paper might at all times have recourse for credits in an almost unlimited way to the Federal Reserve bank of its district. Nor were the twelve reserve banks left standing alone, each for itself. They were vitally related, so that in the event one should experience undue pressure through the demands of its members, the Federal Reserve Board in Washington may compel any one or all of the reserve banks to combine to accomplish any particular purpose.

It fell out in due course that the Banco Central—with a limited capital, with no definite quotas of reserves, and with no opportunity to avail itself of the great powers derived through

the issuing of notes on the basis of bills receivable—was handicapped from the first. The supreme test, however, had not come prior to the Madero revolution. We shall have occasion later to develop some data with respect to the actual banking operations of the Banco Central; at the moment it has been our purpose to make clear its place in the banking machinery of the Republic, as set in motion by the law of 1897.

When the Banco Central had opened its doors for business, the keystone in the state banking structure had been placed. We had, then, existing side by side two large plans: one, that developed by the Banco Nacional and the Banco de Londres domiciled in the capital and enjoying exclusively the right to establish branches throughout the Republic and to circulate their notes as widely; the other that of the Banco Central situated in the capital with state banks scattered widely over the Republic. It goes without saying that the two systems touched here and there, and that rivalries arose; but, on the other hand, it was clear that they were bound together by community of interest—that they would run or fall together.

With these perfected systems Mexico was now ready to launch upon an unprecedented

development, and to unfold her resources in the space of ten years as they had not been in a hundred—to emerge at a bound, as it were, from a chaos of economic and political confusion to a panoplied state, wearing the guise and mien of the twentieth century.

X

THE TRANSITION PERIOD

ONE of the transitory clauses of the general law of March 19, 1897, provided that banks then in existence had the right to adhere to the general law, reforming their concessions in accordance with it, and by way of reward they were to take on the character of *first* banks in their particular states. It will be recalled that great advantages accrued to such first banks, through tax exemptions, etc. And so it came about that nearly all the banking institutions of the country availed themselves of the opportunity extended by the Minister of Hacienda. Six banks submitted at once to the reform. They were the Banco Mercantil and the Banco Yucateco, of Yucatan; Banco de Durango; Banco Minero, and the Banco Comercial, of Chihuahua; and the Banco de Zacatecas.

They were each classified as *first* banks. And practically the only differences in the reformed charters of these institutions lay in

the sums agreed to be paid to the government's intervenors. These employees received on an average about P500 per quarter. Other slight differences, too, there were. For example, in the provision having to do with branches, the Banco Minero was permitted to establish them in four states—Chihuahua, Coahuila, Nuevo León, and Sonora; while the Banco Comercial, of Chihuahua, was limited to establishing branches in Chihuahua and Coahuila.

At the height of things three brand-new concessions were granted for banks of emission. They were to be located in Sonora, Sinaloa, and Vera Cruz.

The Banco de Nuevo León, located at Monterey, was one of the institutions which held out against the cancelation of its charter. It did, indeed, permit the reform of its concession, but it would not abandon the right it had been granted originally to issue three pesos of notes for one peso of cash in vault. It will be recalled that the general law provided that only two pesos in notes might be issued against one peso of cash.

It was only on September 30, 1897, that Limantour succeeded in closing an arrangement with this bank. Its original concession was dated August 5, 1891, and it had been a

fairly liberal one; hence the bank was loath to abandon it. It was able, indeed, through holding out, to secure from Limantour nearly all the rights it had originally enjoyed. For example, it was permitted to establish branches and agencies in Nuevo León, Coahuila, Tamaulipas, and Durango, but not within other states short of complying with the general law which compelled an increase of the capital of the institution by P100,000 for each new branch.

The bank agreed to adhere to the general law, save in certain specified cases, notably in the matter of volume of notes to be circulated. It also agreed to secure its circulation by a deposit in the Treasury of bonds of the public debt in a total of one-third the paid capital. It further agreed not to issue notes to exceed three times its capital stock actually paid up. The life of its charter was extended to thirty years. No officers of federal or state governments might serve in any capacity as officials of the bank; the bank might transfer its concession on the approval of the Minister of Hacienda; it was compelled to submit to the federal courts, and it was given five years in which to retire all notes issued for sums less than P5.[1]

[1] *Memoria de Hacienda*, 1897-98, pp. 297-300.

The details of the reformation of the usual concession were simple enough. The bank merely renounced its original rights, where there were conflicts. Take for illustration the Banco de Zacatecas. Its concession was dated March 3, 1891, and on November 12, 1897, it agreed to adhere strictly to the general law of March 19, 1897. Its reformed concession merely set out the large heads which have to do with banks of emission. Its capital was fixed at P600,000, with authority to increase it on the consent of the Minister of Hacienda. Its domicile was Zacatecas. It might also establish branches in Jalisco and Durango by increasing its capital P100,000 for each branch. It took on the character of *first* bank in the state of Zacatecas. Its concession was extended to thirty years from March 19, 1897, and for twenty-five years it was to enjoy all tax exemptions under stipulations of Articles 121 and 127. The bank agreed to prepare a new set of by-laws in conformity with the general law, and said by-laws should contain the present reformed contract. And this bank, too, was to have five years in which to retire its notes issued in smaller denominations than P5. But here, in contradistinction to the exaction laid on the Banco de Nuevo León, the deposits which the Banco de Zacatecas had made with

the Treasury to secure the redemption of its notes were to be returned to the bank, when Congress had approved the reformed contract.[1]

Thus, with only trifling exceptions as to details, Limantour at last succeeded in bringing the banks of the country into a degree of uniformity which had appeared impossible of attainment. Before the end of 1897 ten banks were in operation. They were the Banco Nacional, the Banco de Londres y Mexico, the Banco Internacional é Hipotecario, Banco Minero de Chihuahua, Banco Comercial de Chihuahua, Banco Yucateco, Banco Mercantil de Yucatan, Banco de Durango, Banco de Nuevo León, and Banco de Zacatecas.

It is to be noted that Limantour's pet bank, the Caja de Ahorros, is not listed. It will be recalled that it opened its doors May 5, 1895, with a very small paid capital—only P3,250 had been subscribed. At the end of three years the capital of this institution had grown to P86,792, with 2,065 shares, giving them a value of P41—par P25. Originally only shareholders could borrow of the Caja, but the by-laws were now so reformed that any employee might have access to the Caja's credits. And it was now Limantour's purpose to extend the

[1] *Memoria de Hacienda*, 1897-98, pp. 305-306.

operations of his bank to the employees of other departments of the government.[1]

The following year two dividends of P3.50 and P3.25, respectively, were paid on the stock —equivalent to more than 25 per cent. The Caja had loaned P221,184 and had collected P192,450, and showed deposits of P91,602.[2]

The government's contributions to the assets of the Caja accounted in large part for its earnings. These contributions came through fines, etc. The Caja was destined to continue yet awhile in flourishing condition ere it fell on evil days. It is chiefly of interest because of its sponsor and because of the really progressive step taken at a date when institutions of this type were unknown in America.

Perhaps at this juncture a brief résumé of the banking situation at the moment of the enactment of the law of 1897 may not be amiss. Of course, data are not available covering the operations of all banks in the Republic—some of them published no statements. However, the following table will indicate that already banks had come to assume no mean place in the economic structure of the state. A consolidated statement as of June 30, 1897, follows:[3]

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[1] *Memoria de Hacienda*, 1897-98, pp. 357-358.
[2] *Ibid.*, 1898-99, p. XIII.
[3] *Boletín de Estadística Fiscal*, No. 225, pp. 105, 108.

RESOURCES

Capital unpaid	P14,440,000
Cash	46,692,929
Bills receivable	37,867,741
Mortgage loans	3,420,406
Secured loans	13,685,998
Other loans	1,597,183
Current accounts receivable	27,643,178
Furniture	1,398,672
Total	146,746,108

LIABILITIES

Capital paid	P41,050,000
Notes in circulation	42,240,491
Mortgage bonds in circulation	2,551,700
Demand deposits	1,116,787
Other deposits	2,110,349
Current accounts payable	51,365,918
Reserve and emergency funds	6,310,863
Total	146,746,108

Mexico was now to experience a phenomenal growth in banking assets. With totals standing in 1896 at P135,284,120, in the space of three years those figures were increased by more than P100,000,000. During this period the Banco Nacional, from controlling more than half the totals, dropped a little under it.

From January, 1897, to January 1, 1900, the cash holdings in the banks increased in

round figures from P44,000,000 to P54,000,000; bills receivable from P37,500,000 to P83,000,000; notes in circulation from P38,500,000 to P63,500,000; and secured loans from P13,000,000 to P31,750,000.[1]

A study of the following résumé develops first of all that the paid-in capital of the banks of Mexico was practically doubled in five years, rising from P41,050,000 to P78,300,000. The note circulation had increased a little more than P20,000,000, totaling in 1901 P63,629,245. There had been a marked increase, too, in mortgage bonds in circulation, this total having risen from P2,500,000 to more than P9,000,000 —wholly due to the expansions of the Banco Internacional é Hipotecario. Current accounts payable, including deposits, showed an expansion of P35,500,000 rising to P86,970,387. Surplus accounts rose from P6,000,000 almost to P14,000,000.

On the resource side of the ledger the cash in vault mounted from P46,692,929 to P62,091,571, while bills receivable grew from P37,867,741 to P91,865,637. Secured notes increased from P13,685,998 to P36,108,902; current accounts receivable from P27,643,178 to P50,496,243.

A comparative study of the development by years is shown in the following résumé:

[1] *Memoria de las Instituciones de Crédito*, for 1897–98–99, p. 141.

RÉSUMÉ FOR THE YEARS 1897–1901 OF THE BANKS OF THE REPUBLIC[1]

RESOURCES (in pesos)

	Capital Unpaid	Cash	Bills Receivable	Secured Loans	Current Accounts Receivable	
June 30, 1897	14,440,000	46,692,929	37,867,741	13,685,998	27,643,178	
June 30, 1898	16,730,250	41,440,288	52,560,805	21,622,666	34,761,560	
June 30, 1899	16,290,000	48,361,214	69,233,714	22,807,663	42,960,909	
June 30, 1900	10,257,500	57,078,428	98,167,265	32,191,341	47,638,196	
June 30, 1901	5,040,000	62,091,571	91,865,637	36,106,902	50,496,243	

LIABILITIES (in pesos)

	Capital Paid	Notes in Circulation	Mortgage Bonds in Circulation	Demand Deposits	Current Accounts Payable	Emergency & Reserve Funds
June 30, 1897	41,050,000	42,240,491	2,551,700	1,116,787	51,365,918	6,310,863
June 30, 1898	43,500,000	52,810,405	3,816,900	2,514,003	57,927,343	6,960,314
June 30, 1899	55,360,000	58,208,341	6,546,400	1,552,272	75,765,662	7,905,948
June 30, 1900	69,600,000	65,937,617	6,381,516	4,358,447	92,837,097	11,645,100
June 30, 1901	78,300,000	63,629,245	9,164,700	4,684,067	86,970,387	13,840,499

[1] *Boletin de Estadistica Fiscal*, No. 225, pp. 105, 108.

This exhibition surely reflected a healthy condition. While there had been a material expansion in the circulation of notes, this phenomenon had been accompanied by great development in the commercial and industrial life of the people; and, furthermore, it must be borne in mind that for the first time in the history of Mexico an adequate volume of money was being poured into the channels of trade. It required time and circumspection to handle the financial situation in that raw, undeveloped country; to adjust to a nicety the equilibriums; and to recognize when the point of currency saturation was being reached in the economic dispensations of the people.

The year 1898 found sixteen banks in operation in the Republic. Two banks were added the following year, two in 1900, and four in 1901. In order to gain an idea of the rapid progress made during the five years immediately following the enactment of the general banking law, the following table is appended.[1]

The detailed statement of the banks as of June 30, 1901, brings out very sharply the preponderant position of the Banco Nacional. In 1897 its paid capital had been but P8,000,000; in 1901 it reached P20,000,000. Its circulation the first year mentioned had been P23,872,226;

[1] *Boletín de Estadística Fiscal*, No. 225, pp. 101–102.

GENERAL STATEMENT OF THE BANKS IN THE REPUBLIC (According to Balances of June 30, 1901)

RESOURCES (in pesos)

Banks	Capital Unpaid	Cash	Bills Receivable	Secured Loans	Current Accounts Receivable
Banco Nacional de Mexico	.....	27,359,128	28,327,362	18,249,051	18,220,483
Banco de Londres y Mexico	.....	13,547,865	22,610,066	8,605,804	7,412,928
Banco Internacional é Hipotecario	1,500,000	523,165	618,294	298,220	3,484,702
Banco Minero de Chihuahua	.....	1,350,896	3,619,768	806,773	2,939,348
Banco Yucateco	.....	2,768,507	3,325,829	3,773,908	1,112,823
Banco Mercantil de Yucatán	.....	1,431,302	998,740	1,335,675	730,358
Banco de Durango	.....	370,531	1,254,054	53,411	559,946
Banco de Nuevo León	.....	580,258	2,501,993	91,687	441,002
Banco de Zacatecas	400,000	495,063	1,819,498	.....	1,436,205
Banco del Estado de Mexico	.....	553,682	2,065,661	34,969	1,315,370
Banco de Coahuila	.....	840,709	2,569,138	101,325	2,683,597
Banco de San Luis Potosí	275,000	851,332	2,928,429	505,147	862,397
Banco de Sonora	250,000	827,293	511,279	35,099	2,316,258
Banco Occidental de Mexico	.....	519,504	866,341	121,404	2,469,159
Banco Mercantil de Vera Cruz	.....	1,403,333	3,438,291	.....	259,942
Banco de Jalisco	.....	1,003,411	2,325,178	158,279	994,443
Banco Central Mexicano	.....	5,645,783	4,185,065	1,468,235	1,127,495
Banco Mercantil de Monterey	750,000	433,881	2,303,110	102,001	515,715
Banco Oriental de Mexico	.....	1,011,510	3,190,426	255,214	666,485
Banco Refaccionario de Campeche	90,000	12,884	410,384	9,159	11,178
Banco de Guanajuato	125,000	295,099	809,064	48,525	269,567
Banco Agrícola é Hipotecario	1,000,000	5,628	405,679	.....	460,451
Banco de Tabasco	500,000	250,729	594,438	16,348	164,525
Banco Refaccionario de Michoacán	150,000	10,080	187,552	36,667	41,868
Total	5,040,000	62,091,573	91,865,689	36,106,901	50,496,245

GENERAL STATEMENT OF THE BANKS IN THE REPUBLIC (According to Balances of June 30, 1901)

LIABILITIES (in pesos)

Banks	Capital	Notes in Circulation	Demand Deposits	Current Accounts Payable	Emergency & Reserve Funds
Banco Nacional de Mexico	20,000,000	23,325,827	.....	42,559,084	6,766,004
Banco de Londres y Mexico	15,000,000	16,492,043	.....	12,275,745	4,750,000
Banco Internacional é Hipotecario	5,000,000	.....	239,216	2,006,146	103,500
Banco Minero de Chihuahua	4,000,000	2,444,501	126,724	2,727,178	725,035
Banco Yucateco	3,000,000	4,778,533	16,695	2,759,627	461,665
Banco Mercantil de Yucatán	1,500,000	1,864,670	9,650	970,079	189,875
Banco de Durango	1,000,000	608,438	67,398	864,799	69,407
Banco de Nuevo León	1,500,000	1,620,103	16,495	901,621	126,275
Banco de Zacatecas	1,000,000	566,570	70,346	2,403,297	161,500
Banco del Estado de Mexico	1,500,000	1,050,840	29,023	1,485,130	23,788
Banco de Coahuila	1,600,000	1,415,750	9,194	3,288,613	45,931
Banco de San Luis Potosí	1,100,000	1,574,820	4,282	3,012,006	26,781
Banco de Sonora	1,000,000	1,500,000	96,348	1,386,090	109,524
Banco Occidental de Mexico	1,500,000	566,865	91,677	1,878,638	13,500
Banco Mercantil de Vera Cruz	2,000,000	2,016,645	94,304	933,866	56,751
Banco de Jalisco	1,000,000	1,212,225	40,918	2,444,680	20,567
Banco Central Mexicano	7,000,000	.....	3,376,714	1,977,458	167,852
Banco Mercantil de Monterey	2,500,000	644,580	16,433	1,259,125	11,898
Banco Oriental de Mexico	3,000,000	990,525	340,848	798,297	10,000
Banco Refaccionario de Campeche	300,000	.....	8,000	35,862	644
Banco de Guanajuato	500,000	533,165	25	620,334	.....
Banco Agrícola é Hipotecario	2,000,000	.....	.....	207,328	.....
Banco de Tabasco	1,000,000	423,145	23,094	79,800	.....
Banco Refaccionario de Michoacán	300,000	.....	6,682	95,584	.....
Total	78,300,000	63,629,245	4,684,066	86,970,387	13,840,497

in 1901 it had actually declined by more than P500,000. There had been an increase in the current accounts payable, the totals rising from P34,987,985 to P42,559,084, which marked a gain in deposits. Its cash in vault, it is true, had fallen approximately P3,400,000, but there had been an increase of a little more than P10,000,000 in the portfolio, with a similar expansion in the secured notes; and a trifling growth in the current accounts receivable of P2,000,000.

An analysis of the situation carried a little farther discloses that of the total cash or specie resources of the banks in 1901, the Banco Nacional carried P25,755,009 out of a total of P56,118,669. In its portfolio there existed bills receivable totaling P28,327,362, in addition to secured notes aggregating P18,249,051. There were also current accounts receivable approximating P18,220,483. The latter account was offset on the ledger by a total of P42,559,084, or a difference against the bank of approximately P24,000,000, which sum largely constituted the deposits of the institution.

To the student of banking familiar with American principles, it is not easy to penetrate the statements of the Mexican banks, on account of the mystery which hangs over the accounts entitled *current creditor* and *current*

debtor. This system of classification is almost exclusively Mexican, and came to be so predominantly the method employed as between bank and client that perhaps a few words may be necessary to clarify the situation.

If we take by way of illustration the data supplied in the table above, showing *current accounts receivable* of the Banco Nacional in 1901 at P18,220,483, and *current accounts payable* of the same date at P42,559,084, we shall find that in the first instance the current accounts receivable means that the Banco Nacional has made advances to its clients in that total, based on the deposit of acceptable collaterals in the form of notes or securities. On the other side we have the total commitments which have been made by the bank to clients in the form of advances, plus all deposits. The methods pursued by the bank in handling these accounts is to carry deposited notes to maturity and to collect them; failing in this, the amount advanced against such matured paper is charged to the account of the client to whom advances have been made. This results in an anomalous bookkeeping situation. In other words, entries are made on both sides of the ledger, which, so far as the individual is concerned, ought legitimately to wash or liquidate one another.

What is he saying here? That the net worth of the banks was actually higher by the amount of the accounts receivable?

This clouded situation became so serious that in 1908 Limantour undertook its clarification, explaining that the totals carried in these two accounts in the consolidated statement for that year—which properly should nearly have balanced each other—amounted to P220,000,000. This method of bookkeeping is, to say the least, confusing and ought to have been abandoned by the banks. But the system, allied with the earlier methods of procedure inherited from the Spanish régime, would be difficult to eradicate. The serious point involved was the inability to uncover true demand deposits.

A more or less analogous situation has had to be dealt with in the United States. The reciprocal accounts carried by banks with one another, covering their current transactions—a situation complicated by virtue of the reserve law requirements—in its most aggravated state developed into the so-called "pyramiding" of accounts. Happily, the enactment of the Federal Reserve Act has cut the ground from under this fictitious structure, thus removing one of the erstwhile dangers in our so-called reserve situation. There was, in truth, much more artificiality and peril in the scheme pursued by the banks of the United States than in the scheme of *current debtor* and *creditor* ac-

counts of the Mexican banks, because of the different character of these accounts. With American banks they were demand accounts, but, strictly speaking, they were not so with the Mexican institutions. The advances made by Mexican banks to their clients were largely of the type we have attempted to describe, and extended over intervals of time ranging from six months to a year, depending on the nature of the collaterals assigned for their protection.

The general character of the paper in the portfolios of Mexican institutions varied widely from that to which the banks of the United States are accustomed. Discounting operations, so common in the United States and in Europe, were a thing almost unknown to Mexican bankers. In fact, as M. Favre[1] has pointed out, it was regarded by the Mexican client as a reflection on his uprightness to suggest the discounting of a piece of his paper. In the first place, the Mexican law respecting discounts required that the note should bear two signatures and that it should be paid in a space not exceeding six months. As a matter of fact, most of the advances of banks were for longer periods.

On the face of it, it would appear that the

[1] *Favre, Les Banques au Mexique*, p. 44.

banks of emission which put in circulation a considerable volume of notes based on the cash reserve of, let us say, 50 per cent., would run great risks in depending on liquidations, which too often were indeterminate or extended over too long terms. Undoubtedly the ultimate safety of the system lay in the development of a large reserve bank, which could be depended upon absolutely to support its members, through rediscounting or through the protection of the outstanding circulation.

The note circulation of the banks in Mexico up to the crash had been in essence an asset currency, based on the resources of the banks and supported by large metallic reserves. In this it differed essentially from the asset currency of the Federal Reserve banks now so extensively circulated in the United States. Federal Reserve notes—not the Federal Reserve bank-notes which are based on government bonds—are issued against commercial paper, running for short terms, not exceeding ninety days; and are, therefore, in the highest sense an emergency currency to be expanded or contracted as the conditions demand. The theory of Mexican currency issues was similar in principle. There would be an outflow of the notes of the banks as demand arose, and when that demand had been satisfied, the re-

verse action would set in, and presently the bills would be returned to the vaults whence they had been issued. In practice the history of currency circulation in Mexico shows but insignificant fluctuations. There did not develop in that country great seasonal fluctuations, such as have been experienced in the United States, as, for example, at the harvesting time of wheat and the marketing of cotton. In order to gain a more graphic idea of the trend of the currency movement in Mexico, the table on page 144 may prove instructive.

The table exhibits a fair degree of uniformity in its angle of development. It was only when troublous times arose that fluctuations developed—fluctuations quite without the pale of legitimacy. Attention may be directed to the heavy shrinkage in the outstanding notes of the Banco Nacional after 1913 and the increase shown in the summaries of the other banks of emission. The first effect came through the ability of the Banco Nacional to purchase its notes during the depreciated currency period under Carranza; while the increase shown was due to Huerta's measures, which we shall discuss in a later chapter.

CURRENCY TABLE, 1896–1918[1]
(In Pesos.)

	Issued by Banco Nacional	Other Banks	Total Outstanding
December 31, 1896..	.....	.....	37,967,105
June 30, 1897.....	23,872,226	18,368,265	42,340,491
December 31, 1897..	.....	.....	44,808,253
June 30, 1898.....	24,107,737	28,702,668	52,810,405
December 31, 1898..	.....	.....	54,375,769
June 30, 1899.....	23,211,265	34,997,076	58,208,341
December 31, 1899..	.....	.....	63,196,833
June 30, 1900.....	24,719,447	41,218,170	65,937,617
December 31, 1900..	.....	.....	64,012,465
June 30, 1901.....	23,325,827	40,303,418	63,629,245
December 31, 1901..	.....	.....	71,257,627
June 30, 1902.....	27,581,778	49,885,210	77,466,988
December 31, 1902..	.....	.....	86,145,227
June 30, 1903.....	28,378,029	59,655,511	88,033,540
June 30, 1904.....	23,455,245	59,533,976	82,989,221
June 30, 1905.....	26,439,982	63,014,274	89,454,256
June 30, 1906.....	31,608,695	65,526,282	97,134,977
June 30, 1907.....	37,566,398	60,904,130	98,470,528
June 30, 1908.....	39,479,934	52,773,360	92,253,294
June 30, 1909.....	40,214,874	52,006,603	92,221,477
June 30, 1910.....	52,199,401	59,961,262	112,160,663
June 30, 1911.....	54,840,995	61,813,507	116,654,502
July 31, 1912.....	58,097,233	65,860,349	123,957,582
December 31, 1912..	64,128,980	67,613,610	131,742,590
June 30, 1913.....	67,330,579	62,897,680	130,228,259
February 28, 1918...	42,232,324	89,334,650	131,566,974
September 30, 1918..	38,380,038	85,348,782	123,728,820

[1] *Boletín de Estadística Fiscal*, Fiscal Year 1902–03, No. 255, pp. 205, 214–216; *Boletín de Estadística Fiscal*, Fiscal Year 1910–11, No. 366, pp. 263, 281; *Mexican Year-Book*, 1914, p. 22; Memorandum supplied by Department of Banking under Hacienda.

XI

ADOPTION OF THE GOLD STANDARD

THE early years of the twentieth century witnessed the continued progress of banks in Mexico—a progress marching *pari passu* with the general economic unfolding of the country. But they were not happy years in the highest sense, for drought afflicted the country and the low price of silver seriously hampered the mining industry. Indeed, it may be said that to some extent all industry and commerce of the country felt the disturbances wrought through the fluctuations of the silver standard, to which Mexico was dedicated. This was disclosed most forcibly in the exchange rates, a concomitant of unsettled conditions. And it may well be supposed that banks were vitally involved when the value of the peso was sliding up and down the scale like mercury in a thermometer. What should be done?

Limantour had early faced the problem, and appointed a committee of forty-four men

to study the silver question with a view to making recommendations. This was during the fiscal year 1902–03.[1] And on his committee were the best names in Mexican finance. A smaller group was chosen to co-operate with an international committee in the larger study of silver in its international relation.

The silver problem confronting Mexico was not hers exclusively—it affected all lands whose imports reached countries operating on a silver basis; if, indeed, it did not affect all countries whatsoever. Several commissions were appointed to study the problems, for there were indeed grave problems to be met. When one considers that more than $500,000,000 were involved annually in imports into silver-standard countries, it can but be apparent that gold-standard states seeking to establish markets in silver countries were deeply concerned.

The commissioners appointed by Mexico, the United States, China, and other countries succeeded after the fashion of most commissions. They could reach no common understanding. But in a report published on International Exchange the following resolution adopted in London appeared to express the sense of the leading powers concerned:

[1] *Memoria de Hacienda*, 1902–03, pp. 175–179.

ADOPTION OF THE GOLD STANDARD

That the adoption in silver-using countries of the gold standard on the basis of a silver coin of unlimited legal tender, but with a fixed gold value, would greatly promote the development of those countries, and stimulate the trade between those countries and countries already possessing the gold standard, besides enlarging the investment opportunities of the world.

It is obvious that the gold-standard countries had completely dominated the conferences. It was, in fact, the power of the creditor nations which here came into play. Limantour scarcely needed encouragement. In his view, by the fall of 1904 the time had come for action, and he was determined to enact into legislation a measure which should establish for Mexico a gold standard, so devised as to keep silver in circulation without impairing the legal ratio to be established as between the precious metals. These ends were to be gained by closing the mints to the free coinage of silver; through preventing the reimportation of Mexican pesos; by establishing a ratio between gold and silver based on the average gold price of silver during the past ten years; and by deferring the coinage of gold until the new silver coins should have attained a parity with that metal; and when in the opinion of the government the appearance of gold in the circulation would not upset the established parity between the metals.

Limantour's plan.

On November 18, 1904, Limantour presented his plans to Congress, and on December 9th a law was enacted declaring that the existing silver peso, containing 24.4391 grams of pure silver and 2.6342 grams of copper, should continue to be legal tender, and that it should have a value equivalent to 75 centigrams of pure gold. It was further provided that the issue of specie of all sorts was reserved to the Chief Executive, who was also authorized to forbid the reimportation of Mexican pesos. Other items in the law provided for a continuation of the coinage of the old Mexican peso for export purposes, and to permit for a time the circulation of gold coin of other countries within the Republic.

One of the important measures enacted in connection with this law was that providing for the maintenance of the stability of exchange, a function confided to a commission known as Comision de Cambios y Moneda (Commission on Exchange and Money). It was to have a special fund to be used in the stabilizing processes, for the flow of commerce and capital is ever uncertain in its tides.

On March 25, 1905, the gold standard was put into operation. On account of the fact that the gold price of silver was still below the legal parity established, it was provided by

law that new silver money could be exchanged for gold only at the legal rate. The application of this rule, however, ceased to be obligatory when the price of silver rose above the legal parity.

In April the Comision de Cambios y Moneda was created, and the Banco Nacional advanced P10,000,000 as a fund for the purpose of supporting the exchange of the country through the familiar operation of buying or selling gold drafts, according to the state of the market.

But the great problem of establishing a legal parity between gold and silver, on the basis fixed, was largely resolved through the operation of natural laws and not through the activity of the Commission. The times were most propitious for the experiment. It is doubtful whether it would have been possible, short of great confusion and economic distress, for the gold standard to have been made effective in Mexico, had not silver continued to rise in price in the markets of the world.

The transition from a silver to a gold basis was thus apparently rendered easy. The price of an ounce of silver in 1905 rose on the London market to 27 13-16 pence, and during the following year to 33 1-8 pence, completely shifting the burden of the Mexican problem, so that it came to be no longer a question of

bringing silver *up* to a parity with gold, but a problem of keeping silver *down* to a parity.[1] The problem of the Diaz government in 1905 had been at first to encourage the importation of gold, with a view to bringing the banks to substitute it for silver in their reserves, but the natural flow of gold into Mexico in payment for silver developed to flood proportions. By October, 1906, over a period of sixteen months silver had been exported in a total of P55,608,-823, and gold had been coined in the sum of P51,606,500.[2]

On account of the great increase of gold stocks held by the banks, Señor Limantour, through a circular dated March 1, 1906, required that in future in their monthly statements the banks should set out gold and silver holdings,respectively,a thing not done hitherto.[3] By the fall of 1906 gold importations had reached such volume, and silver exportations in response had so far depleted the circulating media of the country, that a decree was issued, laying a 10-per-cent. tax on all exportations of silver not replaced by similar quotas of gold —a scheme later to be invoked by Huerta and rendered more drastic still by Carranza

[1] Conant, *Banking System of Mexico*, p. 71.

[2] *Financial Documents*, December, 1906, p. 7.

[3] Jenaro Garcia Nuñez, *Leyes sobre Instituciones de Crédito*, Mexico, 1913, pp. 165–166.

ADOPTION OF THE GOLD STANDARD

By August 28, 1906, the gold stocks had been so heavily increased in the vaults of the banks that a new order emanated from the Hacienda, compelling the banks to withhold reckoning in their reserves old gold coins. This rule, of course, had the direct effect of compelling the banks to ship such gold for reminting; but it illustrates conclusively that the government already felt itself so strongly gold-intrenched that it might resort to such summary measure.[1]

While the shift from silver to gold standard had been taking place, other matters of concern to banks had been transpiring. It early developed that there were hidden dangers in the method adopted by banks in handling reciprocal accounts—creditor and debtor. And Limantour was not slow to call the banks to account. The gold-standard law became operative March 25, 1905; and scarcely were things settling on this basis when Limantour issued an order (May 12th) to banks requiring them to maintain a reserve of 50 per cent. against interest-bearing accounts. He characterized such accounts as similar to outstanding notes.[2]

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[1] Jenaro Garcia Nuñez, *Leyes sobre Instituciones de Crédito*, Mexico, 1913, p. 168.

[2] *Memoria de Hacienda*, 1905–06, p. 200.

Limantour ordered the banks on May to maintain a 50% cash reserve against interest-bearing acc

As may well be supposed, the state banks without exception rose up in arms over the ruling, and their representatives gathered at once in the capital to discuss the situation. On May 24th, a memorial signed by these representatives was presented to Limantour.[1] They declared that grave injuries were about to be sustained; that current accounts would be set topsy-turvy; that private banks, through their freedom from governmental inspection, would get the business; that, in short, a panic would ensue. The bankers took the erroneous position that deposits at interest were to be considered as loaned; hence reserves were not required; at least, not in excess of 10 per cent., which private banks were supposed to maintain. It was reiterated that an enforcement of the order would entail heavy liquidations of credit lines; indeed, to such an extent that securities would be thrown on the market in sufficient volume to glut it. The memorialists figured that if the rule were applied to the Banco Nacional and the Banco de Londres P90,000,000 in specie would be required by them alone to make up the balances. It was estimated that deposits and accounts payable, falling under the ruling, exceeded P180,000,000. The enterprise was accordingly hopeless. The

[1] *Memoria de Hacienda*, 1905–06, pp. 199–204.

specie was not to be had to satisfy Limantour's order.

The bankers finally averred that by the trick of transferring deposits to four days' sight, and by taking a pledge of some character converting the line into the secured category, the rule of the Secretary might be circumvented. But they wanted none of that.[1] They wished the rule itself abrogated.

This memorial was signed by the most distinguished bankers and publicists in Mexico, among whom were Ernesto Madero, Casasus, Obregon, Landero, and Honey. And they were right and wrong in their main contention. Deposits at interest subject to check ought with reason to have been buttressed with reserves ranging from 12 to 25 per cent.; but to have insisted on 50 per cent. was unreasonable. The great difficulty here was clearly that of sorting the accounts into demand and time, and of requiring reasonable reserves against them.

Limantour, however, was nothing moved in the premises; and not until July 8th did he make reply to the memorial. He restated his position, explaining that the rule was merely explanatory of the general law, and with unflinching courage held to his decision. He concluded with the order that to the total of notes

[1] *Memoria de Hacienda*, 1905–06, p. 204.

in circulation there should be added and figured against the specie in vault:

1. All deposits at three days' sight or less, whether interest-bearing or not, except confidential deposits.
2. All balances from loans however generated, except mortgage or secured loans.

That order could not be misinterpreted. He ended by saying that all banks could easily comply with the law and that time would be granted for so doing, as indeed it was, to October 31st.[1]

The banks without further protest set about complying with the regulation, and partly through the scheme of classifying deposit accounts and the transfer of loans to the secured column the balances were established.

However, hardly was this matter disposed of ere another scheme had to be checked. Certain banking groups had deliberately embarked in stock-jobbing enterprises, that is to say, manipulating their own capital through expansions. But the able head of Hacienda was not disposed to permit any bank to launch into an orgy of speculation. This move was complicated with other developments, as we shall see.

There was involved in the shift from a silver to a gold standard great and fundamental

[1] *Memoria de Hacienda*, 1905–06, pp. 205–210.

changes in the economic status of the country. Happily for Mexico, at the time of the transition, the whole world was running at fever-heat in what was possibly the wildest speculative era of history, and but for this juxtaposition serious troubles must have ensued. Moneys were flowing into the country from foreign lands in amazing floods. Mining, agriculture, industries, banking—all were being literally swamped. Investors were crying for opportunity to leave their millions in Mexico. Limantour was not slow to move in the premises. It will be recalled that in 1899 and in 1903 he had finally completed the consolidation of the public debt, that he had swept clean the boards at home of floating indebtedness, and that he had been able through his refunding operations to reduce the rate on the bonded debt to 5 per cent.

These transactions were directly related to the world situation of credits. The Banco Nacional, the Banco de Londres, and the Banco Central, profiting by the tide, increased their capital shares, much to the advantage of the inner groups, in that the new issues were sold at heavy premiums. This fact it was which rendered restive certain state banking groups. They saw the opportunity and besought of Limantour permission to increase their capital

The BN

The BNM, BCM, & BLM all increased their capital by selling stock. Things were booming. Other banks asked permission to do the same, but Limantour said no on 9/15/05.

issues. In a letter of September 15, 1905, he flatly denied them the right. He stated that he had been watching events; he had noted the tendency within banks to speculate, and one of the ways contemplated the watering of stocks, and yet another was to buy stocks in other institutions so as to control them. He would none of this. He proposed to put an end to it.[1] He saw that his own people had torn a leaf from the book of a certain group of American bankers, groups combining to control, through interlocking directorates, the fate of a chain of institutions. And it will be recalled that the reckoning for the United States came in the panic of 1907. Since that date federal legislation has endeavored to safeguard the public against the evils of interlocking boards.

Limantour recognized this danger and largely saved Mexico from trouble on this score—although he could not prevent certain stock and bond operations which in the end tended possibly to impair the solvency of some of the banks.

The first decade of the twentieth century was truly extravagantly staged in Mexico. It is not easy to picture the reckless development which everywhere ruled in the economic life. Not only in the realm of men were extrava-

[1] *Memoria de Hacienda*, 1905–06, pp. 212–213.

gancies committed, but city and state governments feverishly bonded themselves to undertake this activity or that—some beneficial, some worthless. In the mad bargaining over bond issues some of the banks took leading rôles, as, for instance, the United States Banking Company, a limited corporation, absorbed an issue of P739,000 of bonds of the state of Vera Cruz at 91.5, bearing 5 per cent.;[1] the Banco Central purchased P698,000 of bonds of the state of Sinaloa at 86.[2] And so on through the catalogue.

Transactions of this type were almost of daily occurrence, and so long as the banks could turn about and unload it was easy sailing. Europe was taking these bonds, especially those carrying the national government's guaranty of interest, as rapidly as they could be got overseas. But a change was coming and it was not far ahead. An indication that all was not well is seen in the fact that between June 20, 1906, and March 31, 1907, small coins in the vaults of banks increased from P1,721,687 to P4,898,885;[3] and the flow of foreign credits greatly subsided. This curtailment left many of the banks carrying bonds, which were so much dead weight.

[1] *Memoria de Hacienda*, 1906-07, pp. 253–256. [2] *Ibid.*, p. 257.
[3] *Ibid.*, pp. 282–283.

However, the great bank-founding wave still had not spent itself, nor were the conditions yet ripe to end it. On July 22, 1906, a concession was granted to the Banco Mexicano de Comercio é Industria, capitalized at P10,000,000 and with right to establish branches throughout the Republic. It was expected by Limantour that this bank, which was of the auxiliary type (*refaccion*): would greatly stimulate interest in this field. He was still harboring the hope that something real might be achieved with this type of institution. "It is notable," he said, "the development which has begun in the field of auxiliary banks, from which so many benefits are to be expected for agriculture and mining."[1] And it was his pleasure—October 16, 1907—to grant a concession to the Banco Refaccionario de Laguna, which proved to be the last of his auxiliary banks.

Before the fiscal year 1907–08 had ended troubles were upon the country. In a communication to the Comision de Cambios y Moneda, Limantour wrote, "Because of the persistent scarcity of drafts on foreign countries—a condition brought about partly through the low price of our principal products of export as well as through the small sum of investments received from foreign countries"—

[1] *Memoria de Hacienda*, 1906–07. p. XVI.

the conditions throughout Mexico are bad.[1] There was a great shortage of capital, and sales of securities were negligible; also it was difficult to effect collections of debt. The government experienced a considerable shrinkage in its revenues and was forced to borrow from the Banque de Paris et Pays Bas 25,000,000 francs, netting only P9,652,509.[2] The sudden stoppage of the inflow of foreign capital, due to universal depression, had been a large combating factor in the disarrangement of the national budgetary equilibrium. Payments of interest on the public and other debts and the withdrawal of deposits in Mexican banks threw a heavy burden on the exchanges, resulting in the borrowing operations indicated. It was a trying time for the country.

The banking system by the end of the year 1907 had been put to severe tests. First, it had had to bear the brunt of shifting from a silver to a gold basis, and providing ways and means for that operation—a more or less delicate affair, for the reason that the commercial life of the country, its industrial activities, had need to be provided for and accustomed to the new régime. It was a tremendously complicated operation, involving reorganizations extending from the remotest hamlet to the Treas-

[1] *Memoria de Hacienda*, 1907–08, pp. 306–307. [2] *Ibid.*, p. 307.

Depression of 1907

ury in the capital. The wage scales had need to be revised in all their schedules, running through agriculture, mining, and industry. Prices of goods in every mart had to be overhauled; tariff schedules and taxes of all types had need to be revamped to meet the changed conditions.

It is not too much to say that it would have been impossible to achieve this transition but for the co-operation extended the government by the banks. The very first operation had been the creation of a P10,000,000 fund designed for the purpose of stabilizing the exchanges, and this had been advanced by the Banco Nacional. Through the closing of the mints to the free coinage of silver, there at once developed silver shortages, which were intensified by the heavy exportations due to higher prices in the markets for that metal. Between May and October, 1905, Señor Limantour estimated that the silver pesos in circulation had been diminished by P3,000,000; and by the end of the year the reduction had been much increased through the exportation of probably P10,000,000 contributed by the Comision de Cambios y Moneda, and by the banks. Nor did the curtailment end there—it still was to exert its pressure with ever-increasing ill effects.

As Conant has pointed out,[1] to meet the withdrawal of silver bank-notes came in to fill the void; but there is error in the statement, because of the fact that bank-notes could not and did not fill the place occupied by silver currency. The mass of people were unaccustomed to paper currency, and many of them resented the substitution; and here was an element of decisive import in the revolutionary propaganda, and it has been too lightly appraised by those searching for causes.

The note circulation increased between January, 1905, and July of that year from P82,995,576 to P92,002,194. The Banco Nacional issued of this increase approximately P6,000,000, a condition brought about in part through the heavy advances it had made to the Comision de Cambios y Moneda. This increase in circulation, keeping pace in a measure with the withdrawals of silver, was a perfectly logical unfolding. No other course would have been possible; but even this palliative was far from satisfying the public needs.

Early in 1907 panicky conditions began to develop in Mexico; and as the year moved onward the world-wide depression culminated in New York in October and November in what is known as the Bankers' Panic—a panic which,

[1] Conant, *Banking System of Mexico*, p. 74.

indeed, for a time prostrated the United States, compelling the suspension of specie payments on the part of practically every bank in the nation. Mexico, luckily, was saved from acute developments, through having, in the first place, a better system of banking than that of the United States; and, secondly, because of her economic position, which had been vastly improved through the higher prices ruling for her silver output; and from the further fact that during the recent years there had been a tremendous augmentation in the totals of foreign capital loosed within her borders.

The transition from a silver to a gold standard had been made with comparatively little shock, to all outward appearance; but more or less discontent had been attendant upon the event, particularly in the remote districts of the Republic—a discontent which later was to play a considerable rôle in the undoing of the régime of Don Porfirio Diaz. The general conditions of the banking institutions of the country wore an air of superficial prosperity, but to the trained student there were symptoms betokening disease; and Señor Limantour on February 10, 1908, addressed a circular letter to all the chartered banks, requesting that they send representatives for a conference in the Capital.

XII

REFORM LAW OF 1908

IN his letter of February 10th, Limantour struck squarely at the chief abuses which had arisen and at the large dangers to which the banks were exposed. It was his purpose to disclose the real situation with a view to enlisting the co-operation of the bankers in measures he proposed to enact. He says frankly, with a suggestion of pride, that he and prominent bankers had tried to execute reforms in the banking machinery of the country. However, he was compelled to admit that, while progress had been made, the results had not measured up to expectations.

"The lack of personal experience," he went on to say, "in the management of institutions new to the country, and certain inveterate customs of our merchants, manufacturers, farmers, and men of affairs, are the chief obstacles against which things have broken each time effort has been made to implant reforms in the mode of conducting business."[1]

[1] *Memoria de Hacienda*, 1907–08, p. 180.

Something, it is true, has been achieved [he wrote], but much still remains to be done, and it is important that we should address ourselves to the task; for, in proportion as new interests are created and the volume of business, both domestic and international, increases, more urgent becomes the necessity of adapting ourselves to the altered commercial conditions and of raising the methods and organization of our banks to a standard commensurate with the present demands on them. The recent stress arising from the financial crisis, which commenced in the United States and quickly spread to Europe, has been the means of evidencing deficiencies which are almost incompatible with the duty incumbent on the banks of furnishing efficacious protection to all who by their capital or industry contribute to the progress of the country; the time is therefore ripe for renewed and more vigorous efforts for the attainment of the desired end, and in these efforts we shall be guided by the lessons of experience.[1]

And again he pointed boldly at one of the weakest spots in the banking system:

A very common idea prevailing in every class of the community is that the functions of a bank of issue and deposit are the same as those of a private banker or even of a mere money-lender; that the chief obligation assumed by the banks as a consequence of their having obtained a concession from the government is the duty of lending the last penny in their coffers to the public; that every one who considers himself entitled personally to be trusted, or who possesses property more or less valuable and susceptible of easy realization, has a right

[1] *Memoria de Hacienda*, 1907-08, pp. 180-181.

to demand accommodation from the banks, that the banks fail to fulfil the object of their existence and lay themselves open to the severest strictures if they decline to do business just when money becomes scarce and when private bankers and money-lenders turn borrowers away. These and similar views tend to vitiate the public's conception of institutions of credit, and, what is worse, lead those institutions themselves astray by working on their fears of being deprived of their clientele by other establishments more complaisant, if less cautious. [1]

He scored the banks for their too energetic pursuit of profits, without regard to reserves. He emphasized that banks should keep their paper liquid in order to redeem their notes and their depositor obligations. More attention should be paid to mercantile paper—it should be kept cleaner. He deprecated the presence of too much long-time paper in the portfolios of the banks. He asserted that this was the worst enemy to be combated. Few people borrowed with the expectation of paying at the maturity of the obligation. Extension after extension followed in due course.

While Limantour did not so phrase it, the point of it was that the banks were supplying capital to industry and trade, instead of meeting only temporary needs as rightly befitted the scope of commercial banks. This evil has

[1] *Memoria de Hacienda*, 1907–08, p. 181.

immemorially pursued banks in undeveloped territories. The opportunity to reap large profits, together with the demand that naturally arises, renders it most difficult for bankers to keep to the narrow way.

He also puts his finger on one of the sore spots when he attacked the method adopted by the Mexican banks in handling deposits. He alleged, and quite correctly, that there was great confusion in the current accounts creditor (payable) and debtor (receivable); that deposits, clearly demand, were hidden in these catch-all accounts for the purpose of drawing interest, when, as a matter of fact, they were subject to check. He urged that care should be exercised in separating demand from interest-bearing deposits, and deprecated the paying of too high rates for deposits. He rather startlingly proposed to give priority of payment to non-interest-bearing accounts.[1]

It is an interesting fact that Señor Limantour here took a leaf from the banking acts of some of the states of the American Union, which already had differentiated between interest-bearing and non-interest-bearing accounts. The guaranty-of-deposit laws of some of our states apply exclusively to non-interest-bearing deposits. Another matter which he criticized

[1] *Memoria de Hacienda*, 1907–08, p. 183.

harshly was the eagerness of most bankers to secure deposits and the contest waged to secure new business. The price paid was too high, and soon or late would redound to the injury of the banks themselves. With a degree of canniness almost Scotch, he opposed the fixing by banks of credits in blank—that is to say, leaving the matter of drawing to the discretion of the client. He also objected to the loaning of funds to customers outside the zone of the bank; and urged the strict limiting of time to any customer, and above all to directors.

This was a circular letter indeed calculated to rouse bankers to a sense of their real situation. Limantour, as a matter of fact, in December of the preceding year had set out in his annual budgetary statement many of the objections above cited. Over this period, while on the whole there had been no failures among banking institutions, the Banco Yucateco and the Mercantil de Yucatan found themselves during the panic of 1907 in financial straits; and early in 1908 the discovery that officials of the Bank of Yucatan had been guilty of heavy peculations intensified the situation to such an extent that the state banks were forced to create a guaranty fund of P400,000 to safeguard these two institutions. The Yucatan muddle was clarified through the consolidation

of the above-mentioned banks into the Banco Peninsular Mexicano, capitalized at P16,-500,000.

Responding to Señor Limantour's invitation, there assembled in the capital on April 4, 1908, bankers from every end of the Republic. Almost without exception the proposals for amendment were approved and the direct fruits of the conference were gathered in a bill presented on May 9th to the Federal Congress.

In his letter accompanying the proposed reform bill, Limantour recapitulated the chief defects of the banking law, most of which were touched upon in his communication to bankers of February 10th. Further than this, he fortified his position by saying that he had early discovered the deficiencies of the general law of 1897; but that he hoped in the course of a few years to be able to perfect a system at once safe and fitted to carry on the work of developing the national resources. But, even as it was, he affirmed that great progress had been made.

> Under the shadow of the law [he wrote] banking has notably unfolded in the country, including the whole land in its operations. At that time [1897] the paid capital and surplus of the banks was P47,000,000; and the total of resources was but a little in excess of

P139,000,000, while to-day the capital and surplus exceed P234,000,000 and the resources of the various institutions of credit, P761,000,000. [1]

While Limantour felt that a marked advance had been made, he called attention to the preponderance of banks of emission. Mortgage banks and auxiliary banks had followed slowly. Their need, though, was unquestioned and the banks of emission had been drawn out of their way, endeavoring to fill the gap—their resources had been accordingly impounded in long-time securities.[2]

On this score, how far indeed was this overlapping of operations on the parts of the banks of emission or commercial banks responsible for the strangling of the mortgage and auxiliary banks—or the precluding of their establishment? It is apparent that the commercial banks not only endeavored to cover their own particular domain, but entered that of the other two, striving to monopolize the whole field of banking. And here lay Limantour's problem: how to relieve the commercial banks of the heavy burdens of bonds and long-term paper they had lightly assumed; of making them, in a word, liquid; and of fixing hard and fast the limits for future operations. The long and short of it was that the able secretary

[1] *Memoria de Hacienda*, 1907-08, pp. 453-454. [2] *Ibid.*, p. 454.

had been too lax. He should have curbed at the outset the rapacity of the commercial banks through administrative repression, and should earlier have inaugurated his reforms.

Then he went on to say:

The central idea of the bill, in so far as banks of issue are concerned, is so to adapt their mechanism as to provide an absolute guaranty for the redemption of their notes at any moment, and to enable them, during seasons of business stringency, to expand their operations, instead of being obliged, as has hitherto been the case, to restrict them. In order that banks of issue may be in a position to perform the functions that are properly theirs, it is necessary that the note circulation, the deposits, and, in general, all immediate liabilities of the institution, should be represented by assets that are readily negotiable or that are sure to be paid on maturity. It is also desirable to prevent limiting the services of these banks to a small group and to extend the benefits of the credit facilities, which they afford, to the largest possible number of clients. Another desideratum, for which a variety of reasons can be adduced, is that each bank should preferably endeavor to satisfy the credit requirements of the territory that has been assigned to it as the sphere of its activities. It has been sought to attain these ends by providing in the bill that banks of issue may not accept uncovered drafts or bills of exchange nor open credit accounts that cannot be closed at any moment at the will of the bank; by forbidding such banks to underwrite issues or shares of bonds for an amount exceeding 10 per cent. of the sum represented by the capital of the institution plus its reserves, excepting, for reasons that can be readily understood, securities

of the Federal Debt and securities guaranteed by the, nation; by prohibiting them, furthermore, to operate, on their own account, mines, metallurgical establishments, mercantile, industrial, or agricultural enterprises, or to conduct an insurance business; by imposing on them the duty of not operating outside of their financial jurisdiction, save when exceptional security is offered; and, finally, by debarring them from allowing any single individual or firm to contract liabilities toward them for amounts exceeding in the aggregate 10 per cent. of their paid-up capital.[1]

There can be no serious objection to any of the matters here proposed—they were salutary and far-reaching. But Limantour had not finished his catalogue. He proposed to require the actual clearance of bank-notes. Certain banks had agreed in the course of their operations to collect the notes of certain other banks and to hold them in vault, keeping, the while, notes of other institutions in circulation. Through this means in some cases embarrassment had been narrowly averted through the sudden presentation for redemption of large sums of notes. Such tactics had been indulged in by rival institutions. To compel clearance operations was necessary not only for the protection of the weaker banks, but for the protection in a larger way of the public interest through forcing out of circulation any redun-

[1] *Memoria de Hacienda*, 1907-08, p. 455.

dancy of notes. Under Limantour's plan there could be no inflation of the currency.

The banks of emission or the commercial banks were not alone in having developed dangerous tendencies. So also had mortgage banks. Marked weaknesses were in evidence. Limantour's words were:

> The same purpose—*viz.*, that of insuring as far as possible an absolute guaranty for the payment of all demand liabilities—has been kept in view by my department in framing the enactments which deal with deposits received by the mortgage banks. The precepts of the law at present in force on this subject are open to objection, for they permit these banks to receive deposits up to five times the amount of their capital, and they allow the guaranty for such deposits to consist of the mortgage bonds, which banks of this nature issue, and of ordinary securities, without determining the proportion that must be maintained between the deposits and the cash holdings of the institution. A clause in the accompanying bill makes provision for a concrete guaranty for demand deposits, or deposits payable at three days' notice, the guaranty in question to consist of cash for at least one-half of such deposits, of immediately negotiable securities for one-quarter, and notes discounted, running for not more than six months, for the remaining quarter. It is also proposed that the total of such deposits must never be more than twice the amount represented by the paid-up capital plus the reserve fund. To understand the reason for the apparent rigor of this rule, it must be borne in mind that the nature of the operations, in which mortgage banks en-

gage, is entirely distinct from the business of the banks of issue and deposit, seeing that the former can in no case count on the resources tied up in mortgage loans, to pay the deposits held by them, so that it is quite indispensable that those deposits should be protected by a full guaranty of their own.

Limantour, in spite of his penetration into the banking problems of his country, did not appear fully to have appreciated the fundamentally weak position of his mortgage banks. The most favorable possible legislation could not have fostered any great development in banks of this type, for the reasons pointed out, that their successful operation, following European experience, depended on an investing public; and that investing public, so far as Mexico was concerned, was non-existent. Relatively speaking, the credits derived through the sale of bonds of the mortgage banks were mainly of foreign origin.

But certainly he did safeguard this type of bank through the enactments above outlined.

Another and very important matter was the clarifying of the spheres of operation of the mortgage and auxiliary banks. Frequent clashes had arisen between banks of the two types over legal rights, for the law had not been explicit in its definitions. The question of priority of lien, where two banks were concerned, had

proved most vexatious to the courts. The status of a loan by an auxiliary bank to an hacendado, who had earlier pledged his property to a mortgage bank, was clearly fixed. It was provided that in the event an auxiliary bank should loan to the owner of a mortgaged farm, the limit should be 15 per cent. of the value of the estate; and it was further required of the auxiliary bank to see that the sum loaned went into the purchase of seed, primary needs, machinery, payment of labor, or conservation of the property. Only then would its priority of lien be established.[1]

Limantour further remarked—what was obvious to one scanning the consolidated table showing the circulation of notes—that there was a tendency to concentration in powerful hands—to wit, the Banco Nacional; and he was of the opinion that a number of the banks of emission might to advantage voluntarily relinquish the right to issue notes and convert into auxiliary banks. Provision was made for such eventuation. And it is not improbable that in the back of the Secretary's mind was the knowledge that, so heavily burdened were some of the banks with stocks and bonds and real-estate paper, conversion into either mort-

[1] *Las Reformas a la Ley de Instituciones de Crédito*, by Joaquin D. Casasus, Mexico, 1908, p. 337.

gage or auxiliary banks was inevitable—or else liquidation.

The bancos refaccionarios, or auxiliary banks, also, came in for curbing. In Limantour's language:

> Inasmuch as the auxiliary banks assume toward the public liabilities which they may be called on to meet at any moment owing to their receiving call deposits, there is good ground for throwing around them restrictions similar to those proposed for banks of issue, though less severe, for it is not thought desirable, for example, to subject the auxiliary banks to the limitations with respect to the underwriting of bonds and shares, as these institutions to some extent resemble financial associations and there are not yet in the country any other establishments better qualified than these banks to handle issues of bonds and shares.
>
> In regard to the deposits received by the auxiliary banks, it is proposed that these banks shall be obliged to hold always in cash 40 per cent. of all deposits payable either on demand or at three days' call, with the privilege, however, of holding, instead, immediately negotiable securities up to one-half of the 40 per cent. The remaining 60 per cent. must consist of discounted paper running for not more than six months. [1]

It had been Limantour's purpose originally to organize his bancos refaccionarios to supplement particularly the operations of the mortgage banks. But he had been disappointed in the results. There had been but eight such in-

[1] *Memoria de Hacienda*, 1907–08, p. 456.

stitutions chartered during the eleven years following the passage of the Bank Act of 1897. These banks were the Banco Central Mexicano, Banco Mexicano de Comercio é Industria, Banco Refaccionario de Campeche, Banco Comercial Refaccionario de Chihuahua, Banco de la Laguna, Banco Refaccionario de Michoacan. (The banks of Campeche and Michoacan were converted into banks of emission under the dates of October, 1908, and June, 1909, respectively.)

At the date of the Reform law there were actually in operation in the Republic but four banks of this type—the Central Mexicano, the Comercial of Chihuahua, the Comercio é Industria, and the Banco de la Laguna.

As for the Banco Central Mexicano, which completely overshadowed the banks of this type, it had been organized, as we have seen, to serve as the unifying element in the state banking system. Its purpose had not been primarily to act as an auxiliary bank in fulfilment of the ideas entertained by Limantour when he recommended the enactment of his law. As we have seen, it operated, in a strict sense, partially outside the pale of the General Banking law. The Banco Central served as a clearing-house, as financial agent, and as a discounting center for the state banks. It had

Supposedly BCM was too weak to act as a true guarantor

been hoped by those chiefly instrumental in its organization that it might be developed into a large reserve bank, one to which in times of stress its members might apply for assistance. But just here lay the fundamental weakness in the equation. The powers of the Banco Central were such as to limit its ability to serve. Its capital resources were too insignificant for the burdens which it was presumed to bear, for once its capital had been absorbed through the taking over of long-time loans from the state banks—as had indeed been the case—the condition of the Banco Central was similar to that of the man who has taken upon his back a load too heavy to bear. The load must be shifted, else collapse, and if that load shall chance to be rubbish it may prove hopeless to find a willing back upon which to lay it.

Such, indeed, came to be the condition of the Banco Central. It was nearly helpless on its own account, and because of that helplessness the whole state banking structure was threatened.

On June 19, 1908, Congress answered Limantour's petition by enacting *in toto* his bill. In the main, we have treated the chief topics carried in the text, but it remains to add that banks of emission might no longer be incorporated with less than P1,000,000 of capital; that

they were forbidden to make loans for terms exceeding six months or to discount notes with less than two names of established solvency, to make mortgage loans, save as provided in recovery cases.[1]

A transitory article set out that all banks should comply with the terms of the law by July 1, 1909, and they did so comply; but the law was never put fully to the test. The revolution was at hand.

[1] *Reforms and Additions to the General Law of Institutions of Credit*, C. Art. 29, I-III.

XIII

EVE OF THE MADERO REVOLUTION

WE have seen that the banking law of 1897 was thoroughly revamped through the reforms of 1908. The amendments of 1905 had been inconsequential in comparison. It is to be regretted that Limantour's projected improvements could not have been fully tried—that they should have been cut off by the revolution.

A comparative study of a little more than ten years of banking experience in the Republic may be of interest at this stage, because we are now rapidly approaching the apogee in the banking situation. The following tables carry data of prime importance.[1]

Several rather striking things are shown in the these tables. To begin with, the unpaid capital at the close of the fiscal year, June 30, 1909, amounted to but P1,019,300 against P12,940,000 in June 30, 1897. The paid capital

[1] *Boletín de Estadística Fiscal*, Fiscal Year 1908-09, No. 340, pp. 212-213; 222-223.

RÉSUMÉ FOR THE YEARS 1896-97 TO 1908-09 OF THE BANKS OF ISSUE

RESOURCES (in pesos)

	Capital Unpaid	Cash	Bonds and Stocks	Discounted Notes	Secured Loans	Current Accounts Receivable	Total [1]
June 30, 1897.....	12,940,000	45,911,407	.....	36,501,334	15,006,783	25,204,753	137,131,040
June 30, 1898.....	15,230,250	40,431,088	719,146	51,244,574	22,671,124	32,193,420	163,623,963
June 30, 1899.....	11,790,000	46,333,293	464,240	66,103,906	24,925,221	38,265,389	189,115,217
June 30, 1900.....	8,757,500	53,955,489	1,526,302	93,119,870	33,723,174	41,447,984	233,878,740
June 30, 1901.....	2,300,000	55,894,031	2,424,833	86,058,663	37,120,890	45,370,549	230,978,109
June 30, 1902.....	3,245,700	64,993,066	4,480,431	100,789,717	43,555,466	58,959,550	278,608,376
June 30, 1903.....	3,345,000	62,227,054	8,783,724	115,754,809	51,904,035	80,972,941	326,385,848
June 30, 1904.....	6,100,658	66,373,183	11,501,239	126,588,716	64,844,950	103,863,144	383,776,787
June 30, 1905.....	4,575,382	75,895,624	12,351,574	148,199,270	67,701,307	152,957,155	467,300,329
June 30, 1906.....	3,404,483	74,578,872	15,045,242	167,621,625	91,706,388	191,914,889	550,939,278
June 30, 1907.....	2,101,432	71,247,477	17,652,090	189,063,936	110,244,161	203,628,150	602,860,488
June 30, 1908.....	1,738,451	80,928,310	31,350,004	123,037,910	64,609,119	296,144,073	613,311,844
June 30, 1909.....	1,019,300	88,626,336	43,714,571	87,058,205	53,219,343	440,630,528	736,191,398

LIABILITIES (in pesos)

	Capital Paid	Reserve and Emergency Funds	Demand Deposits	Time Deposits	Notes in Circulation	Current Accounts Payable	Total
June 30, 1897.....	36,050,000	6,252,263	500,836	2,110,349	42,240,491	49,977,101	137,131,040
June 30, 1898.....	43,500,000	6,891,714	1,587,237	2,307,096	52,810,405	56,527,511	163,623,963
June 30, 1899.....	44,360,000	7,827,948	1,094,045	3,122,549	58,208,341	71,998,522	189,115,217 [2]
June 30, 1900.....	58,600,000	11,535,656	1,281,735	7,364,632	65,937,617	89,159,100	233,878,740
June 30, 1901.....	63,700,000	13,568,504	1,053,454	6,378,896	63,629,245	82,648,010	230,978,109
June 30, 1902.....	68,700,000	16,021,702	1,134,950	6,498,794	77,466,988	108,785,942	278,608,376
June 30, 1903.....	80,650,000	18,764,281	816,627	4,575,731	88,033,540	133,545,669	326,385,848
June 30, 1904.....	92,150,000	20,690,000	528,107	5,176,767	82,989,221	182,241,792	383,776,787
June 30, 1905.....	92,400,000	26,128,279	21,172,554	6,018,758	89,454,256	232,126,482	467,300,329
June 30, 1906.....	118,400,000	50,779,039	27,666,159	17,640,632	97,134,977	239,308,471	550,939,278
June 30, 1907.....	121,400,000	52,841,872	25,464,883	22,451,705	98,470,528	282,231,500	602,860,488
June 30, 1908.....	119,900,000	49,954,382	23,955,303	25,643,649	92,253,294	301,605,216	613,311,844
June 30, 1909.....	118,800,000	51,308,094	71,910,424	55,266,470	92,221,477	346,684,933	736,191,398

[1] The totals in this column include mortgage loans and furniture items not set forth in this table.
[2] This includes P2,503,812 of increased capital in reserve.

increased over the same period from P36,050,-000 to P118,800,000. The reserve fund, always indicative of healthfulness in banking establishments, showed an increase from P6,252,263 to P51,308,094. On the resource side, cash in vault had increased from P45,911,407 to P88,-626,336. Intimately associated with this was the expansion in note circulation from P42,240,-491 to P92,221,477. The maximum circulation for the decade had been reached in 1907, when the totals approximated P98,500,000.

Among the assets an item appearing first in 1898 shows a radical development—that is, the entry headed "Stocks and Bonds." From nothing in 1897 this total had climbed to P43,714,571. The worst of it is, as later developments have revealed, a large proportion of the securities against which advances were made were of banks themselves—including stocks and bonds. In short, Mexican financiers cleverly appropriated the scheme which had been developed in the United States, whereby one banking institution would make loans to its friends based on the hypothecation of the shares of an affiliated bank; this institution in turn would extend similar lines, and so on. As is well known, this endless chain came to be an abuse, and was responsible in part for the crash of banks in New York City in 1907.

This was, indeed, one of the matters inveighed against by Limantour; but instead of a reduction under this head following the conference of bankers in 1908, the statement of banks for June 30, 1909, showed an increase in loans of this character of approximately P12,500,000.

A development in the right direction is indicated by a glance at the comparative results shown in the column for discounted paper. There was a sharp decrease from 1907 to 1909 of almost P100,000,000—a shrinkage of more than 50 per cent. And the same comment applies to secured loans. For the same period they fell from P110,000,000 to P53,000,000—a result growing out of the depressed conditions through which the country was passing. This depression was reflected, too, in the mortgage loans of the banks. This column was swelled through an effort on the part of banks to save themselves from loss on outstanding credit lines. Totals for loans of this character in all the banks rose from P1,680,000 in 1906 to P10,432,000 in 1909.

An even more startling situation is developed in the current accounts debtor, or the open account receivable. From June 30, 1897, to June 30, 1909, the totals had grown, in round numbers, from P25,000,000 to P441,000,000.

Of course, there was a heavy offset in the current accounts creditor, or deposits account, which for the same period had risen from P50,000,000 to P347,000,000. The matter to be contrasted in these current accounts, creditor and debtor, is that in 1897 the creditor balance was double that of the debtor balance. In 1909 the debtor balance exceeded by almost P100,000,000 the creditor balance, an alarming preponderance. And well might Limantour have insisted upon a clarifying of these accounts. They were, indeed, at this time composed of a number of different items, which urgently deserved segregation. It was but natural that the banks should hide as far as possible in current creditor all demand obligations, in order to hedge about the margins protecting their note circulation. But a casual examination would have discovered the fact that the banks were practising a deceptive and dangerous expedient, which eventually, had it gone uncurbed, might have led to a precipitate and fatal termination.

It was clearly Señor Limantour's purpose to insist on a general renovation in the classification of accounts, and on a stricter adherence to certain fundamental principles which had borne excellent fruit in the experience of the United States. He was driving at one of the

most dangerous activities of the banks, when he wrote the following:

This department, in its circular to banks of February 10th last, dwelt at length on the desirability of encouraging deposits without interest; it also explained the dangers to which a bank exposes itself by allowing a high rate of interest, especially on small deposits. One of the most efficacious means whereby deposits without interest may be encouraged is to give such deposits a privileged status in the event of the bank's liquidation, laying down that they must be paid immediately after the bank-notes and cash bonds, and in preference to all other claims. The clause inserted for this purpose is manifestly just, for it does not seem fair that funds which are attracted to a bank by the inducement of high interest should be on the same footing as deposits made as such, without any expectation of profit to be derived therefrom.

High considerations of morality demand the amendment of Article III of the Banking law, in such manner as still further to restrict the rights of members of boards of directors of banks to borrow from the institutions which they administer. The bill, therefore, provides that the legal restriction applies not only to directors personally, but to collective and silent partnerships in which they are interested; the amount of the collateral, which must be gilt-edged, required to be given by borrowing directors or by concerns in which they are interested is determined; and finally, proper sanctions are created to deal with infringements of the law in these particulars.

Though the data contained in the monthly balance-sheets published by the banks are very full, they prove in many cases insufficient, for there are certain accounts

of an indeterminate character, of which the figures are apt to become swelled in such manner as to prevent a proper understanding of the bank's situation. The administration of the banks ought to be so clear as to enable their published balances to give the public—and by the public is meant not only the specialists, but the mass of the people—a sufficiently precise idea of their standing without having to undertake a laborious study of their documents and books. With this object in view, the bill lays down that the balance-sheet of the banks must contain numerous data which do not at present figure in those statements, and it is proposed that the Department of Finance be empowered to demand the amplification of such data whenever it sees fit.

As we have seen, banks of all types were involved in this threshing-out-of-deposits business. In Limantour's view, banks had become prone to look upon all deposits as permanent investments, even as their clients had come to look upon all loans as though made in perpetuity. He had attacked in a vulnerable part; and it would have been interesting to have seen how far the reform might have been carried. The heart and vitals of the Mexican system had been marked for summary readjustment. But soon all plans were to be frustrated.

The condition of the auxiliary banks is shown in the following table, covering the years from 1899 to 1909, inclusive—the figures are in pesos:[1]

[1] *Boletín de Estadística Fiscal*, Fiscal Year 1908–09, No. 340, pp. 242–243; 246–247.

RÉSUMÉ FOR THE YEARS 1898-99 TO 1908-09 OF THE REFRACTION BANKS

RESOURCES

	Capital Unpaid	Cash	Bonds and Stocks	Discounted Notes	Secured Loans	Current Accounts Receivable	Total[1]
June 30, 1899.....	3,000,000	1,244,604	.....	2,210,326	289,694	1,552,667	8,297,291
June 30, 1900.....	.....	2,546,305	695,794	4,057,662	1,327,314	2,858,084	11,766,893
June 30, 1901.....	240,000	5,668,747	590,904	4,783,001	1,514,061	1,180,541	14,361,038
June 30, 1902.....	104,300	3,665,139	968,843	7,229,945	2,915,769	3,515,855	18,788,176
June 30, 1903.....	1,429,900	4,937,175	2,383,239	6,331,495	3,278,688	14,149,266	33,438,898
June 30, 1904.....	100,000	3,368,899	3,086,710	5,050,327	3,051,740	14,119,226	30,442,778
June 30, 1905.....	70,800	4,126,249	7,509,735	6,405,215	2,658,911	21,382,408	43,955,810
June 30, 1906.....	.....	2,987,132	5,108,191	8,443,751	3,200,590	27,512,499	50,488,864
June 30, 1907.....	5,000,000	3,147,767	6,178,792	11,872,595	6,287,797	51,924,946	88,058,792
June 30, 1908.....	8,000,000	3,617,786	6,870,302	13,989,584	21,896,790	45,858,881	104,695,377
June 30, 1909.....	3,000,000	4,639,368	12,350,794	18,775,928	27,692,526	57,248,470	128,375,032

LIABILITIES

	Capital Paid	Reserve and Emergency Funds	Demand Deposits	Time Deposits	Bonds in Circulation	Current Accounts Payable	Total
June 30, 1899.....	6,000,000	.....	.....	.....	.....	2,297,291	8,297,291
June 30, 1900.....	6,000,000	19,444	2,667,713	422,024	428,400	2,229,312	11,766,893
June 30, 1901.....	7,800,000	168,496	3,391,396	344,042	748,200	2,108,904	14,361,038
June 30, 1902.....	7,600,000	233,134	6,071,672	922,741	2,787,300	1,173,329	18,788,176
June 30, 1903.....	10,500,000	925,014	7,666,575	1,035,149	3,797,800	9,514,360	33,438,898
June 30, 1904.....	10,200,000	1,040,529	4,634,900	1,165,837	1,932,000	11,469,512	30,442,778
June 30, 1905.....	21,200,000	960,082	5,771,970	922,632	2,700,600	12,400,526	43,955,810
June 30, 1906.....	21,200,000	2,181,636	5,914,316	3,211,865	2,596,900	15,384,147	50,488,864
June 30, 1907.....	31,200,000	2,478,013	9,695,925	5,173,622	1,590,500	37,920,732	88,058,792
June 30, 1908.....	46,200,000	6,338,090	7,711,185	6,033,580	624,400	37,788,122	104,695,377
June 30, 1909.....	47,800,000	6,888,117	9,066,433	8,776,990	5,621,900	50,221,592	128,375,032

[1] The totals in this column include mortgage loans, auxiliary loans, and furniture items not set forth in this table.

In ten years the paid-in capital invested in these auxiliary institutions had grown from P6,000,000 to P47,800,000; the reserve funds to P6,888,117; the grand totals to P128,375,032. The consolidated statement discloses possibly a too feverish development. The liabilities of the banks on the score of demand and time deposits and bonds in circulation were not sufficiently safeguarded by cash reserves. Besides, it is entirely probable that the banks had assumed in their current accounts creditor obligations which could not at all have been counterbalanced through corresponding contractions in the current accounts debtor. The banks disclosed, too, a tendency to encumber themselves with bonds and stocks, considerable quotas of which were likely in the end to have proved slow or worthless assets. This was revealed clearly in the case of the Banco Central, which developed two-thirds of the totals carried in the résumé.

The condition of this bank in June, 1909, was anything but happy. While its capital had grown from P6,000,000 to P30,000,000, its surplus to P6,500,000, its liabilities had not lagged behind. What with demand deposits of P8,700,000, with time deposits of P6,400,000, with bonds in circulation of P5,500,000, the slender cash resources of P3,500,000 were in-

significant enough, considering its standing as a reserve institution. The accounts creditor and debtor, so far as they appeared on the surface, practically washed one another, but the bond and stock account of the bank reaching P9,769,000 can hardly be said to have been a healthful sign. It showed in its portfolio discounted notes totaling P13,649,844, with secured loans reaching P22,590,362. This last item disclosed the extraordinary case of having grown in two years from P3,791,915 to the sum just given, due to the exigencies of the times —and due, further, to the intervention of the government, through suggesting the making of certain loans. The suggestion was tantamount to an order. Nor might these bad loans be kept under cover. Soon it became known that the Banco Central had absorbed a lot of worthless paper, and that its capital had been seriously impaired.[1]

The progress and place in the Mexican bank firmament of the mortgage banks is reflected in the following table.[2]

The Banco Internacional é Hipotecario de Mexico and the Banco Agrícola é Hipotecario de Mexico completely dominated in this field. They had bounded forward with a momentum

[1] *Boletín de Estadística Fiscal*, Fiscal Year, 1908-09, No. 340, pp. 240-247.

[2] *Ibid.*, p. 233.

RÉSUMÉ FOR THE YEARS 1896-97 TO 1908-09 OF THE MORTGAGE BANKS

RESOURCES (in pesos)

	Capital Unpaid	Cash	Bonds and Stocks	Mortgage Loans	Current Accounts Receivable	Total [1]
June 30, 1897	1,500,000	781,522	.....	2,952,173	2,438,425	9,615,068
June 30, 1898	1,500,000	1,009,200	.....	4,333,742	2,568,140	11,212,098
June 30, 1899	1,500,000	783,316	.....	6,733,680	3,142,853	13,552,476
June 30, 1900	1,500,000	576,634	.....	6,530,692	3,332,129	13,319,201
June 30, 1901	2,500,000	528,793	.....	10,154,751	3,945,153	18,720,889
June 30, 1902	1,500,000	869,349	.....	11,155,262	4,447,116	19,312,917
June 30, 1903	1,500,000	631,590	11,603	12,271,151	3,460,956	19,700,461
June 30, 1904	1,500,000	575,074	4,984	13,694,830	2,926,294	20,295,466
June 30, 1905	1,500,000	593,655	1,134,404	14,014,329	4,001,464	23,351,823
June 30, 1906	1,500,000	777,399	2,266,179	16,368,131	4,334,598	27,453,693
June 30, 1907	1,500,000	851,956	3,192,681	19,361,940	5,403,087	32,844,305
June 30, 1908	1,500,000	1,024,052	2,810,210	26,041,926	5,339,171	38,515,088
June 30, 1909	1,500,000	1,459,177	3,246,766	37,393,127	6,647,146	51,934,102

LIABILITIES (in pesos)

	Capital Paid	Reserve and Emergency Funds	Demand Deposits	Mortgage Bonds in Circulation	Current Accounts Payable	Total
June 30, 1897	5,000,000	58,600	615,951	2,551,700	1,388,817	9,615,068
June 30, 1898	5,000,000	68,600	926,766	3,816,900	1,399,832	11,212,098
June 30, 1899	5,000,000	78,000	458,227	6,546,400	1,469,849	13,552,476
June 30, 1900	5,000,000	90,000	408,999	6,381,516	1,448,686	13,329,201
June 30, 1901	7,000,000	103,500	239,216	9,164,700	2,213,473	18,720,889
June 30, 1902	7,000,000	116,500	253,484	9,947,000	1,995,933	19,312,917
June 30, 1903	7,000,000	151,725	172,186	10,101,000	2,275,550	19,700,461
June 30, 1904	7,000,000	281,394	477,637	11,164,900	2,001,535	20,925,466
June 30, 1905	7,000,000	375,391	621,967	11,782,400	3,572,065	23,351,823
June 30, 1906	7,000,000	541,578	1,133,362	15,047,100	3,731,653	27,453,693
June 30, 1907	10,000,000	677,473	1,108,107	17,276,000	3,782,725	32,844,305
June 30, 1908	10,000,000	900,362	1,263,820	23,212,600	2,811,483	38,515,088 [2]
June 30, 1909	10,000,000	1,157,919	1,682,446	32,836,200	4,880,286	51,934,102 [3]

[1] The totals in this column include discounted notes, secured loans, and furniture items not set forth in this table.
[2] This total includes P326,823 of time deposits.
[3] This total includes P1,377,251 of time deposits.

easily calculated to bring them to grief. The Banco Agrícola, on the 25th of January, 1908, for reasons of its own, changed its title to Banco Hipotecario de Crédito Territorial Mexicano, and as such has continued to operate. This bank, in 1907, launched an extravagant campaign, and in the course of two years succeeded in increasing its bonds in circulation from P3,901,800 to P16,769,800. With a capital and reserve of P5,500,000, by June 30, 1909, its liabilities had grown to P25,353,821.

As for the Banco Internacional, with reformed charter of 1887, its development had been more logical. With a capital of P5,000,000 and a surplus of more than P500,000, it had by degrees over the years come to a point of circulating bonds in a total of P16,000,000. It had developed a local clientele, which rendered its position fairly safe; and the proof of this lies in the fact that, while it is to-day in a sense interdicted by the Mexican government, it has not been put into liquidation.

The problem of the mortgage bank from the first was one which gave President Diaz much concern, as well as his Minister, Limantour. Over and over again they returned to attempt its solution. They knew perfectly that the small Mexican farmer in the outlying districts was oppressed by the country merchant and

robbed by the extortionate money-lender. They knew how hopelessly many of them struggled to escape the thraldom to which they had been committed through inability in many cases to finance their landholdings, and in many instances to finance themselves for even a short term in bringing their crops to harvest.

The need of a rural credit system—one calculated to reach the small farmer—was admitted to be pressing, and President Diaz appointed a commission to report on plans; but the commission—composed of Casasus, Limantour, Braniff, Robles, and Marcasusa—found itself hopelessly at odds, each urging a particular scheme. They were stalemated; first, on account of the inherent difficulties of the problem and their own failure to reach a common finding; secondly, because of the interference of the banks. Further than this, the charge has been made—and with much show of truth—that the intervention of some of the political figures behind the seat of Diaz toppled over the plan for the creation of rural banks.

Instead, there came into existence, with charter dated September 3, 1908, the anomalous Caja de Préstamos para Obras de Irrigacion, etc. It had been authorized by President Diaz in a decree of June 17th, and the warrant for its creation had been embodied in Mexican

law.[1] It was organized by the Banco Nacional, Banco de Londres, Banco Central Mexicano, and the Banco Mexicano de Comercio é Industria, with a capital of P10,000,000, and chartered for fifty years. It was empowered to loan on real estate, to buy and sell bonds, to issue drafts; and, lastly, it brought the government to agree to guarantee as to principal and interest all bonds which the Caja might issue! The government, for its part, reserved the right to veto any act of the bank, and to reject any member of the board of directors.[2]

And thus was launched what was to prove one of the most colossal of Mexican failures—a failure which was to expose the Diaz administration to attack for deliberately playing into the hands of reckless friends. It is not to be believed, however, that the great President or his great Minister were parties to any such plan. They were beaten at the game.

In due process the promising Caja de Préstamos was created with a view to extending credits for the development of agriculture and colonization throughout the Republic. This end was to be achieved by means of loans to farmers and agricultural concerns, secured by mortgage on lands or on crops. Diaz's plan

[1] *Caja de Préstamos*, etc., Mexico, 1909, pp. 3–6.
[2] *Memoria de Hacienda*, 1908-09, pp. 198–202.

to aid the small farmer, however, was to be wholly frustrated in the elaboration of the scheme. The Caja, as it turned out, became merely the instrument through which a coterie of officials and their friends exploited their particular enterprises, and ended, as might have been foreseen, disastrously.

The balance-sheet as of June 30, 1909, less than a year from its establishment, shows that the Caja found demand for its funds and that it was not slow to advance them. The details follow:[1]

STATEMENT OF THE CONDITION OF THE CAJA DE PRÉSTAMOS, AS OF JUNE, 30, 1909

RESOURCES

Cash	P 1,170,013.23
Results from bond operations	5,695,935.24
Deposits in home and foreign banks	20,716,001.09
Investments in stocks and bonds	8,870,748.19
Mortgage loans	11,981,315.56
Mortgage and secured loans	4,600,000.00
Loans carrying bank indorsement	7,217,559.59
General expenses	59,274.08
Divers debtors	18,813.12
Expenditures on installation	6,417.95
Furniture and fixtures	8,544.07
Total	P60,344,622.12

[1] *Boletín de Estadística Fiscal*, Fiscal Year 1908–09, No. 340, p. 257.

LIABILITIES

Capital	P10,000,000.00
Four-and-a-half-per-cent. gold bonds	50,000,000.00
Interest	330,677.79
Divers creditors	13,944.33
Total	P60,344,622.12

With its capital of P10,000,000 and P50,000,000 of gold bonds guaranteed as to principal and interest by the Mexican government, it opened its doors most auspiciously. In the short space of a few months to have loaned more than P30,000,000 was, indeed, a questionable achievement. But this record was to be eclipsed, as we shall see. On good authority it is asserted that the loans made by the Caja were sound in the original instance. Some of those negotiated at a later date, however, were unsound. At the present time it is clear that the Caja de Préstamos has suffered great, even irreparable, losses through the inroads of the Revolution—losses which stand out in contrast to the worthless loans placed on the books with due deliberation.

XIV

FIRST EFFECTS OF THE REVOLUTION

THE year 1910—the centenary of the opening of the great struggle for Mexican independence—found the country in a state of unrest. The transition from a silver to a gold standard—which, on the surface, appeared to have been made without a ripple of disturbance—was of grave significance. Social and industrial demoralizations had spread apace. The country from end to end had been drained of its silver, partly through the attitude of the government in closing the mints and partly through the operation of the law of demand. The price of silver in terms of gold had risen phenomenally—or else, as one chooses to regard it—gold had fallen in terms of silver.[1]

[1] The following table shows the coinage movement over six years, ending June 30, 1910. (*Memoria de Hacienda*, 1910–11, p. 246.)

COINAGE TABLE

Year	*Silver*	*Gold*
1904–05.....	P 350,000	P 3,300
1905–06.....	5,079,000	41,776,500
1906–07.....	23,367,924	23,250,000
1907–08.....	7,403,619	16,600,000
1908–09.....	6,528,000	1,760,000
1909–10.....	2,884,000	5,010,000
	P45,612,543	P88,399,800

During these six intense years the coinage of gold and silver totaled P134,005,743. From May, 1905, to June 30, 1909, silver pesos were exported in a total of P86,073,305; gold, P3,560. In other words, the silver exports swept clear the tills for the years indicated and made inroads besides into the silver stocks of the country to the tune of P40,000,000.[1] While gold came in to replace the white metal, and slightly to overtally it, it was impossible to give it the currency of the silver coins. The country at large was stripped, and the banks, deprived of silver, were forced to hoard the gold which came from the mints as well as that which flowed in to settle the balance against purchases of silver —a hoarding process rendered necessary if the note circulation of the banks was to have adequate metallic protection.

Not only were bank reserves and the paper circulation of the country involved in the reorganization; the matter of maintaining foreign exchanges came sharply to the fore. The world panic had also been a factor in working these confusions. The support which the Comision de Cambios had been able to render, while important, failed in 1908 to be adequate and the government had been forced to borrow abroad. The Banque de Paris et Pays Bas loaned Mexico

[1] *Memoria de Hacienda*, 1910–11, pp. 244–245

25,000,000 francs, netting P9,652,509, which materially helped the situation. But things in all avenues of business were going badly.

"Because of the persistent scarcity of drafts on foreign countries," wrote Limantour, in the spring of 1908, to the Comision de Cambios,[1] "a situation brought about partly through the low price of our principal products of export as well as through the small sum of foreign capital coming in for investment—conditions throughout the country are serious." There was lack of capital, no sales of securities, and poor collections of debts.

The government was not blind to the situation, and had early put its chief energies to the coining of the *tostón*, or the 50-centavo piece. Up to June 30, 1908, these were produced in a total of P26,830,619.50; 20-centavo pieces, P3,846,923.80; and 10-centavo pieces, P1,823,000.

The new monetary law had been wisely drawn in that, while it had kept the weight of the silver peso unchanged, the subsidiary coins had been made lighter relative to their legal values —*viz.*, 20 grams to the peso, and with a fineness of .8 as compared with .902 for the silver peso.

By the end of the fiscal year, June 30, 1908,

[1] *Memoria de Hacienda*, 1907-08, pp. 306-307.

the Comision de Cambios y Moneda—which had opened for operation in 1905 with P10,000,000—found itself in possession of a net fund totaling P17,100,340, made up of P6,100,000 gold, P6,104,169 deposited with banks, and P3,000,000 silver.[1] The Comision had, to all intents and purposes, succeeded in "stabilizing" the exchanges and had acted as handmaiden to the banks in their efforts to meet the requirements of the reserve law. But nothing could take the place of the silver coins in the pockets of the people. Bank-notes, the smallest denominations being of P5, were obviously not fitted to the needs of the laborer and the small wage-earner; nor were gold coins available, for bankers would not pay them out, knowing that, once in circulation, they disappeared as completely as if by magic. And as for there having been achieved a general "stabilizing" of prices, which had been the professed end in view, nothing could have been farther from the facts. The great monetary reform of 1905 never succeeded in stabilizing the value of gold in silver money in Mexico, and naturally all other products were in similar plight. This case has been established beyond peradventure by Francisco B. Lavalle, the distinguished Mexican publicist.[2]

[1] Conant, *Banking System of Mexico*, p. 73.
[2] *El Demócrata*, September 13, 1917; *etc.*

In the United States better success has attended our efforts, because, as Conant has shown, we have been able to limit the coinage of silver, and have thereby made it possible to effect exchanges with respect to gold. But even here, during the World War, all the tables were overturned—we were not able to carry on normal operations of exchange, because of the mobilizing of gold reserves; hence the wild fluctuations ruling in the precious-metals markets—with corresponding dislocations in price arrangements. And here lies a field in which economists still wander with hazy concepts. The confused elements entering into the consideration of prices and standards in their local and international relations present the most profound of economic problems.

With respect to Mexico, we know that in practical operation things worked out badly for the theorists. The definite formulas were disappointing in results. And the winter of 1909–10 bore witness to wide-spread discontent. To add to troubles there had been a failure of the corn crop, and the government was compelled to import and distribute great quantities of grain in an effort to allay the outspoken hostility of the masses.

The banking situation reflected substantially prevailing conditions. A decided wave of re-

trenchment was sweeping over the land; and the uncertainties were intensified when, in February, 1910, the United States Banking Company—a private corporation capitalized at P1,000,000—closed its doors. Incipient runs were started on several banks, but they did not reach disastrous proportions.

However, despite the untoward conditions, President Diaz moved ahead on his program to celebrate the centenary of his country's independence—and to make that celebration the most splendid his people had known. Nothing was to be spared—moneys were to be lavished in order that fitting emphasis should be laid on the progress of the nation—progress largely due to the genius of Diaz himself.

In fine, the fall of 1910 found Mexico bedecked and celebrating with a degree of enthusiasm the achievement of independence. But under the outward show was seething discontent; and while still the plaudits were ringing in the streets of the Capital the *grito* of the Revolution had been heard along the Rio Grande.

By the end of 1910 the economic situation of the country had materially turned for the worse. Over the whole year there had been a partial paralysis of business, which the transitory stimulus of the Centennial in the Capital only

tended to emphasize. The banks naturally responded to changed conditions. Some institutions showed increased deposits, which clearly resulted from liquidation of credit lines; and the banks, through necessity, ceased allowing interest on deposits. Furthermore, the banks began to curtail their extensions of credits and to call loans.

The deposits of the Banco Nacional reached their maximum in P47,000,000. Henceforward, it was to be recession. By 1913 they had fallen to P18,000,000. The Banco Nacional—completely dominating the situation—although it had arranged in 1910 for the use of large European credits, now restricted itself in their employment. It had, however, borrowed approximately P13,000,000, which soon it set about repaying, the account being finally settled in 1913.

The Banco Central had called for assistance as early as 1909, and both the Caja de Préstamos and the Comision had responded. The condition of the bank was now serious. Through the operations of a subsidiary company, called Compañía Bancaria de Fomento, it suffered tremendous losses. The Bancaria Company had engaged in promoting public works, such as street-paving and electric-lighting; and on account of its inner position and the political

influence it could bring to bear on city and state officials, choice contracts were developed. These it farmed out. For a time it was successful, and through excellent connections, it sold its paper extensively in European markets. But eventually losses came thick and fast. So thoroughly vicious were some of its contracts that presently, through repudiations, the Bancaria found itself bankrupt. A case by way of illustration may be cited in the water-works contract with Torreon. The cost of construction was approximately P4,000,000; but in the settlement, bonds were secured with the guaranty of the state on a total of P40,000,000. Small wonder that repudiations followed.

The Banco Central was involved through its financing the Bancaria. It handled the securities and unloaded them in foreign markets; but when the time came that sales could no longer be made the end was at hand, for the Banco Central had made heavy advances to the Bancaria Company. And it must be borne in mind that the state banks were closely affiliated with the Banco Central not only through agency relations, but through the more intimate one of stockholder. Therefore, the failure of the Banco Central was a thing to be averted at all costs. For the time being,

the bank was supported; but we shall see that it was badly involved.

The mortgage banks were managing to hold their own with only slight changes; but already the auxiliary banks were weakening. By the end of 1910 they showed a decrease in their assets of P4,765,748.

With the turn of the year 1911 it became evident that the revolution headed by Francisco I. Madero was a serious matter, and that it was to be waged unscrupulously was manifest when the early reports came in of revolutionary successes. For the banks in the captured territory it meant either partial or total destruction—destruction by virtue of looting or through dissipation of the assets upon which they rested.

Madero was not concerned over the wrecks in his path. He levied upon the banks with callous hand, despite the fact that his family owed the credit institutions of the country about P8,000,000;[1] and despite the further fact that at the instance of Limantour the Banco de Londres lent Madero P210,000 shortly before he crossed the Rio Grande. As he progressed he extracted from the banks in Tor-

[1] This statement is made on the basis of a written memorandum given me by a prominent banker, who sat in a conference of bankers called expressly to consider the indebtedness of the Madero family just prior to the outbreak of the revolution.

reon, Durango, Mazatlan, and San Luis Potosí such sums as he needed to pay his troops; but, be it said to his credit, at the time of his overthrow the Mexican Congress was considering a bill for the reimbursal of the robbed institutions. In the confusion of the times, however, all papers were lost, nor has action since been taken in the premises.

In May, 1911, the triumph of the revolution was admitted with the flight of President Diaz from the capital. While Madero did not at once assume authority, his will, nevertheless, was operative. He realized the situation of the country and that its economic fate depended upon its foreign relations. He and his advisers set studiously about explaining the revolution and what they proposed to do. Foreign moneys were absolutely essential in the present state of affairs.

In the mean time, banking institutions were taking courage, in the hope that the worst was over. The balance-sheet of the mortgage banks for the years 1911 and 1912 showed comparatively little change. The capital stock remained at P12,000,000. The surplus had increased P250,000; demand deposits, P808,192. Bonds in circulation had increased by P1,563,600. On the other side of the ledger the chief item of importance had been the swelling of the mortgage-loan account by more than P5,000,-

000. Cash and notes available for current uses amounted to but P2,326,188, which, notwithstanding an increased liability account, had been reduced below the limit of 1910. As an offset, however, public funds and immediately negotiable securities had been augmented by P250,000, the total standing on June 30, 1912, at P3,770,245.

With respect to the auxiliary banks, during 1911–12 there were no significant changes, save a slight loss in cash and an increase of approximately P4,500,000 in loans on collateral account. There had been an expansion in every credit department which was counterbalanced by an increase of P2,000,000 of capital, and of about P750,000 in the reserve and emergency funds. The total assets reached in June, 1912, P150,678,708.

The Banco Central, pre-eminent among this group, had been steadily losing ground, as may be recalled. The government interested itself and invited a conference of local bankers. An analysis of its balances showed the institution to be indeed in a precarious state, and the Banco de Londres and the Banco Nacional were brought each to advance the Central P1,350,000 on a secured basis; the Union Parisienne made a similar advance, unsecured, and the debt is presumed to be still unpaid.

Help for BCM

Madero became President on November 6, 1911, and from the first his was a desperate game. Once the barriers were down it became easy enough to start revolutions—and the rôle he had essayed so successfully was taken up by various leaders. The moneys which Limantour had left in the Treasury—P64,000,000—were in the early stages increased under his successor, Ernesto Madero. But soon they stood as follows, according to a Treasury statement:

In European banks	P11,270,000
In Banco Nacional de Mexico	14,500,000
In hands of Monetary Commission	18,800,000
In the National Treasury coffers	12,300,000
In government offices	5,700,000
In collectible bills or accounts	500,000
Total	P63,070,000

Under the stress of suppressing revolutionary groups, the Treasury resources rapidly declined; and by the spring of 1912 borrowing operations were instituted, P20,000,000 being secured in June from Speyer & Co. of New York.[1] By the fall the Minister of Hacienda was forced to inform Congress that their appropriations far exceeded his ability to pay. The *Diario Oficial* of October 4th indicates that already the reserves had been reduced to P42,000,000, which were barely ample for

[1] *Diario Oficial*, 120, p. 471.

operating margins.[1] As further evidence of demoralization, the subsidiary coins of the banks of the country fell from P4,657,915 in October, 1911, to P4,419,681 in December of the next year.[2] Of this latter total, P2,501,299 was held by the Banco Nacional. Nor were withdrawals restricted to fractional coins. All banks were being subjected to pressure. Deposits were slowly going down with definite losses of cash, indicating plainly that fright was afoot. There was no way to check the spread of distrust, but the government of Madero, slowly slipping, still endeavored to buttress itself by borrowing yet another P20,000,000 of Speyer & Co. In the space of a little more than a year the available reserves in the Treasury—left by Limantour in a sum of P64,000,000, plus P40,000,000 raised in New York—had been spent, endeavoring to pacify Mexico and to carry out some of the wild promises made by Madero to the revolutionists.

The end of the Maderistas was in sight. In February, 1913, fell the Cuartelazo, and Victoriano Huerta appeared on the scene and, with characteristic Mexican sang-froid, took on the rôle of dictator.

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[1] *Diario Oficial*, 122, p. 345.

[2] *Ibid.*, 117, p. 413; 124, p. 409.

XV

HUERTA AND THE BANKS

HUERTA'S *coup d'état* quite shook out of the Mexican people any lingering optimism. While many regarded him as possibly a savior, reactionary that he was, they rallied to his support with misgivings, for already the storm had almost, if not quite, gone beyond control. This doubt, or hope, was stilled, though, when the edict went forth from the White House that the United States would none of Huerta, who was both usurper and murderer, for President Madero had not only been ousted from his seat, but slain in the streets of the capital!

On account of the disorganizations prevailing, the revenues of the country were now falling far below the needs of the government and Huerta soon was hard put to to make ends meet. Accordingly he took up negotiations with Paris bankers touching a £20,000,000 loan, which had been authorized in May of the preceding year. Representatives of the Banque

de Paris et Pays Bas on June 8th agreed to take £6,000,000, and obtained an option on the balance. But that option was never exercised.

Prior to the conclusion of this loan, in the spring of 1913, the flight of the wealthy from the country was embarrassing the banks through the withdrawal of specie. Something had to be done; so May 1st a decree was issued, levying a tax of 10 per cent. on gold exports, save that shipped by the Comision de Cambios.[1] This tax, however, failed to stay the outflow, and on August 26th a decree was published prohibiting the export of silver and gold coin.[2]

The monetary situation in Mexico reflected an undercurrent of coming disaster. This was signally shown in the exchange situation. Such a demand, indeed, arose for credits on New York that the rate by the end of August was quoted at $0.3620. It was now that the great outflow of silver took place—the *peso fuerte* ran to cover. On October 1st, by decree, the demonetization of silver coins was prohibited,[3] and the output of the mint was ordered increased.

The situation grew steadily worse, despite these measures, and on November 5th Huerta was brought to issue a far-reaching decree. It carried the announcement that the following

[1] *Diario Oficial*, 126, p. 4. [2] *Ibid.*, 127, p. 580. [3] *Ibid.*, 128, p. 340.

things would, for one year, pass as unlimited legal tender:

1. The silver tostón, or 50-centavo piece.
2. The notes of the Banco Nacional and the Banco de Londres.
3. The notes of state banks, within their several respective states.

While the decree had provided that the Banco Nacional and the Banco de Londres should keep metallic reserves against outstanding notes, their redemption was waived for a year; and the same rule applied to the notes of state banks.[1]

The circular letter issued by Huerta three days later to bank supervisors to see that the reserves of the banks were kept intact[2] served in no whit to allay the storm that arose. Almost at once the silver peso and gold coin disappeared. Those not exported were hidden with despatch. Business was prostrate. The circulating medium was limited to subsidiary coins and to bank-notes, the smallest denomination of which was P5. But these were inadequate. In the emergency, Huerta, on November 19th, authorized the issue of notes in denominations of P1 and P2.[3]

In the mean time the Banco Central, the

[1] *Diario Oficial*, 129, p. 35. [2] *Ibid.*, 129, p. 91. [3] *Ibid.*, 129, p. 162.

keystone in the arch of the state banking system, was being subjected to a severe pounding. In 1909, it will be recalled, this bank had begun to show the effects of bad management. In June, 1913, the balance-sheet showed a loss of P7,800,000 in capital stock account. There was also a loss in the surplus account. Demand deposits had fallen by P3,207,198, and other deposits by P2,024,621. Cash bonds in circulation were up to P9,016,000, a growth of nearly P5,000,000 over the year. There had been an increase, which apparently was from borrowings, in the sundry creditors account of almost P7,500,000. On the other hand, the bank, even in its predicament, had not been able appreciably to reduce its outstanding credit lines, save in the department of bills discounted, which showed a shrinkage of P4,625,895.

Later in the summer the troubles of the Banco Central came in troops. Under pressure of a French committee, representing large foreign shareholders, the capital stock at a stroke was reduced from P30,000,000 to P10,000,000, in order to cover losses!

In the fall of 1913, while rumors were afloat touching the solidity of some of the state banks, what amounted to a panic was precipitated in the capital. The Banco Central was swamped with holders of notes of the state

and the fund was to be supervised by four unpaid commissioners, two of whom were to be chosen by the state banks, one by the clearing-house in the capital, and one by the Hacienda. The fund itself was to be deposited with the Banco Nacional, or with some institution to be designated by the Hacienda.[1]

To cap these far-reaching dispensations, on January 7, 1914, Huerta decreed an amendment to Article 16 of the General Law of Institutions of Credit. His version read:[2]

> The issue of bank bills shall not exceed three times the paid-up capital stock, nor shall it, together with deposits payable on demand or subject to withdrawal at not more than three days' notice, exceed twice the holdings of the bank in cash and gold and silver bullion; nevertheless, the Department of Finance may authorize such banks as request it to increase *their circulation up to three times their holdings.*

This provision did not affect the Banco Nacional, the Banco de Londres, the Banco de Nuevo León, for their concessions carried this very limitation, although they had never availed themselves of it. But it did affect the other banks, and while it was not revolutionary, it created alarm. Technically, however, the new order did not mean unsound practices, for the ratio of three paper pesos to one of metal invoked no new principle.

[1] *Diario Oficial*, 130, p. 52. [2] *Ibid.*, p. 66.

HUERTA AND THE BANKS

Preliminary to issuing his decree, Huerta had called a meeting of the bankers of the capital, and at this reunion he invited their co-operation in putting down the revolution headed by Carranza. He solicited financial support. The bankers replied that they were already burdened, and that they could not take over the £5,000,000 of bonds which he offered, being a portion of the £20,000,000 issue. The bankers urged the thinness of reserves against circulation. Then it was he suggested the amendment, providing for issues to stand at three of notes for one of metallic, and the decree above cited was prepared. There are stories as to threats made by Huerta, but it is believed these have been much exaggerated. At all events, the bankers finally agreed to handle a block of the bonds. Only two foreign banks participated.

It will be remembered that this program was instituted after the breaking up of Congress and Huerta's assumption of dictatorial powers. He was not to be defeated. So he moved ahead, and with trifling regard to the reserve status of banks the quotas were assigned. An officer of the Banco de Londres went with his attorney to the Minister of Hacienda to protest against the allotment fixed on that institution, whereupon he was arrested and the Board of Directors

of the bank summoned and compelled then and there to approve the government's measure.

It was not the immediate result of these decrees which upset the economic tables, for they were not necessarily ruinous—it was the fear that other and more summary measures were in reserve. If Huerta, for example, could fix a limit of three paper pesos for one peso of specie in vault, why should he not extend that limit to four or ten? If he should fail to pacify the country, and revolution became rampant, where might things be expected to end? These were the matters which sent panic through the land.

The first emission of P18,200,000—against which the government issued bank-notes—was apportioned as follows:

Banco de Londres y Mexico	P3,000,000
Banco Mexicano de Comercio é Industria	750,000
Banco Germanico de la America del Sur	500,000
Banco Peninsular Mexicano	250,000
Banco de Jalisco	150,000
Banco Mercantil de Vera Cruz	300,000
Banco de Tamaulipas	100,000
Banco de San Luis Potosí	55,000
Banco de Aguascalientes	25,000
Banco del Estado de Mexico	20,000
Banco de Tabasco	50,000
Banque de Paris et de Pays Bas	3,000,000
Banco Nacional de Mexico	4,496,500
Sundry firms	5,503,500
Total	P18,200,000

These funds brought Huerta some relief—although it is stated that much of it went to the payment of old debts—and he turned savagely on the revolutionists in the north and almost stamped them out. Practically the only opponent remaining was Carranza, and he was driven in flight almost to the Rio Grande; but his career from this time on grows in importance.

Carranza left no doubt in the minds of conservatives how he felt toward them. What Huerta was doing in the capital with some show of authority Carranza was surpassing in Durango, Coahuila, and elsewhere. Banks everywhere were looked upon as proper prey. Villa and Urbina, agents of Carranza, took from the Banco de Londres in Durango P400,000 in gold and silver, and P100,000 in bank-notes. In Torreon, Villa took all the cash the banks had —also their bank-notes.

Carranza began early to register his attitude toward the institutions of credit of the country. On December 6, 1913, he issued his Circular No. 7 making heavy requirements of the banks in the territory he had overrun. At this time his authority was limited, but on February 18, 1914, he issued Circular No. 8, taking over in Nogales the branch of the Banco Nacional and that of the Banco de Sonora; in Hermosilla, the

parent Banco de Sonora, and the branches of the Banco Nacional and Banco Minero, and the Agency of the Banco Occidental. Debtors to these institutions were ordered to suspend payments until these banks could be liquidated.[1]

Huerta's troubles were only heightened by coming to blows with the United States. In April the occupation of Tampico and Vera Cruz marked the end of him. Nevertheless, he struggled on, hoping against hope. He still had recourse to funds in the banks, and he endeavored to support them, as far as he might, in consonance with his purposes. But things were not well with them. The mortgage banks were faring badly—coupons and principal of bonds were maturing, and he was brought to issue a decree on May 16th, suspending service on them,[2] which in effect created a moratorium. Next, after disposing of great blocks of the £20,000,000 bond issue—which carried as security 38 per cent. of the customs dues—to foreign and New York bankers to satisfy interest and principal accounts of the public and railroad debts, he still had not reached the end of his resources. When the Paris bankers had declined to exercise their option on the balance of the £20,000,000, he was left the expedient

[1] *Decretos, Circulares, etc., del Gobierno Constitucionalista.* Book I, p. 208.

[2] *Diario Oficial*, 132, p. 137.

of forcing them upon the bankers, as before. The banks got the bonds at .90; but Huerta issued notes in the full equivalent. Here was truly a most anomalous case—a bankrupt government forcing its bonds upon the banks and itself issuing currency against them. The banks and a few firms absorbed a third series of P1,988,460 of this now-famous bond issue; a fifth of P2,500,000; an eighth of P41,117,298. The distribution of the last was as follows:

Banco Nacional de Mexico	P 4,499,995.50
Banco de Londres y Mexico	11,705,885.90
Banco Minero de Chihuahua	3,456,472.50
Banco Peninsular	3,999,996.00
Banco de Zacatecas	100,035.00
Banco del Estado de Mexico	1,300,104.00
Banco de Coahuila	1,419,298.50
Banco de San Luis Potosí	500,105.00
Banco Mercantil de Vera Cruz	1,999,998,50
Banco de Jalisco	1,821,164.00
Banco Oriental de Mexico	3,183,289.11
Banco de Guanajuato	1,580,377.50
Banco de Tabasco	300,070,00
Banco de Hidalgo	950,157.00
Banco de Tamaulipas	1,700,000.00
Banco de Aguascalientes	180,063.00
Banco de Morelos	200,070.00
Banco de Querétaro	520,147.00
Banco de Guerrero	200,070.00
Banco de Durango	1,500,000.00
Total	P41,117,298.51

The banks had now been forced to absorb bonds in a total of P63,655,758 against which their notes had been issued in similar sum, and against which they were required, under the law, to maintain metallic reserves, of 50 per cent. While the law had been amended by Huerta, the ratio being fixed at 33⅓ per cent., it was impossible under the circumstances for the banks to adjust themselves even to this modified program. They were almost paralyzed, and the country at large was but little better off.

What with the interference with banks and the intensified scramble for "hard" money, Huerta's troubles multiplied. It was to be expected that his finance schemes would be questioned and the results of their operation would be heavily discounted. Such in effect was the situation. Early in 1914, so great was the demand for metallic currency and exchange that soon all bank-notes were at a discount. Only the bills of the Banco Nacional continued to stand out with any degree of strength, and these, too, by and by, were to fall in the general slump.

When Huerta came into power he found the credit institutions of the country demoralized and frightened; but they were not broken. On January 31, 1913—a few days before the over-

throw of Madero—in a published statement [1] the banks showed a capital stock of P181,500,000, and all paid but P4,500,000. One year later this capital had been reduced to P154,225,500, largely, it will be recalled, through the losses of the Banco Central. The surplus funds, too, had shrunk by more than P6,000,000. More alarming still, the circulation of notes had increased from P131,847,341 to P178,538,591, while the cash reserve had actually fallen from P91,586,032 to P80,228,893. Over the same period demand deposits had fallen from P80,725,081 to P57,320,345; and time deposits from P90,113,052 to P72,574,578. Total assets went down from P1,126,998,367 to P977,442,601. By the end of June, 1914, demand deposits had receded to P44,398,365, and time deposits to P63,798,547; while the circulation had risen to P231,315,689 against a cash reserve of P90,785,994. [2]

On July 16, 1915, the reins of authority were passed to Señor Carbajal, president of the Supreme Court of Justice, who was to exercise a precarious rule until August 15th, when Carranza marched into the capital.

The detailed statement which we insert, as of June 30, 1914, for twenty-four banks of

[1] *Boletín Financiera y Minero de Mexico*, March 18, 1914.
[2] *Ibid.*, September 12, 1914.

CONSOLIDATED BANK STATEMENT, JUNE 30, 1914

RESOURCES (in pesos)

Banks	Capital Unpaid	Cash	Bonds and Stocks	Bills Receivable	Current Accounts Receivable	Totals
De Emision:						
Nacional de Mexico	.....	40,350,544	14,160,375	114,517,446	49,819,395	218,847,760
De Londres y Mexico	.....	33,846,375	11,785,838	127,210,564	18,202,223	191,045,000
Oriental de Mexico	2,000,000	9,615,712	6,163,833	50,190,122	4,036,872	72,006,539
Peninsular Mexicano	.....	6,081,421	8,447,304	9,858,620	3,377,060	27,764,405
De Jalisco	.....	2,382,432	50,000	5,082,380	7,802,876	15,317,688
Minero	.....	2,156,109	2,645,843	16,369,546	3,825,979	24,997,477
Mercantil de Vera Cruz	.....	3,825,872	868,431	18,576,850	.....	23,271,153
De Guanajuato	.....	895,079	537,138	8,125,013	566,736	10,123,966
Mercantil de Monterey	.....	784,800	949,433	9,748,688	3,230,857	14,713,778
De Tamaulipas	.....	1,508,003	348,480	9,163,740	4,399,354	15,419,577
De Nuevo León	.....	903,901	1,085,850	8,641,533	4,100,500	14,731,784
De Durango	.....	615,315	420,000	11,640,837	3,536,692	16,212,844
De Coahuila	.....	1,049,177	418,691	11,317,298	3,873,577	16,658,743
De Sonora	.....	1,570,088	125,020	7,340,212	4,264,561	13,299,881
Occidental de Mexico	.....	1,180,285	167,915	2,971,290	3,070,394	7,389,884
Del Estado de Mexico	.....	2,203,399	570,115	4,616,154	2,275,680	9,665,348
De San Luis Potosí	.....	1,733,926	558,401	3,967,204	4,017,085	10,276,616
De Hidalgo	.....	742,323	252,284	5,541,072	284,778	6,820,457
De Tabasco	.....	602,640	300,444	2,664,420	863,000	4,430,504
De Morelos	.....	516,780	140,000	2,439,398	188,225	3,284,403
De Querétaro	.....	712,655	128,660	2,900,906	157,400	3,899,620
De Zacatecas	400,000	665,689	818,983	2,588,276	2,046,400	6,519,348
De Aguascalientes	.....	413,679	161,602	1,473,635	937,523	2,986,439
De Guerrero	.....	446,000	289,338	1,127,825	.....	1,863,163
						731,546,377
Auxiliaries or Refaccionarios:						
Central Mexicano	.....	877,100	1,896,555	98,652,741	4,033,985	105,460,381
Com. é Industria	.....	2,575,310	.....	32,015,290	5,507,000	40,097,600
De la Laguna	1,349,580	16,285	207,620	12,068,255	1,441,590	15,083,330
Español Refaccionario	.....	8,354	.....	4,984,663	.....	4,993,017
Comercial Refac.	.....	27,419	360,139	657,867	891,596	1,937,021
						167,571,349
Mortgage Banks or Hipotecarios:						
Hipotecario de Créd. Terr.	.....	533,775	76,635	40,492,583	95,371	41,198,369
Intern. é Hipotecario	1,500,000	2,143,108	2,042,359	45,668,762	276,191	51,630,420
Hip. y. Agr. del Pacifico	800,000	11,548	134,733	1,278,182	.....	2,224,463
						95,053,252

CONSOLIDATED BANK STATEMENT, JUNE 30, 1914 (*Continued*)

LIABILITIES (in pesos)

Bank	Capital Paid	Reserve and Emergency Funds	Demand Deposits	Time Deposits	Notes and Bonds in Circulation	Current Accounts Payable	Totals
De Emision:							
Nacional de Mexico	32,000,000	23,016,897	19,446,649	.....	84,550,292	59,833,925	218,847,763
De Londres y Mexico	21,500,000	8,200,000	14,231,971	2,637,667	62,855,970	81,619,395	191,045,003
Oriental de Mexico	12,000,000	1,746,757	7,318	5,593,280	26,766,668	25,892,520	72,006,543
Peninsular Mexicano	10,725,000	1,450,198	.....	993,757	6,673,576	7,921,875	27,764,406
De Jalisco	6,000,000	369,774	32,799	2,626,190	3,793,717	2,495,209	15,317,689
Minero	5,000,000	2,024,999	15,371	3,253,249	4,119,536	10,584,325	24,997,480
Mercantil de Vera Cruz	3,000,000	1,283,121	350,022	5,384,294	4,757,470	8,496,249	23,271,156
De Guanajuato	3,000,000	228,698	.....	1,035,608	2,431,269	3,428,400	10,123,965
Mercantil de Monterey	2,500,000	363,142	23,989	1,888,207	2,267,265	7,671,176	14,713,779
De Tamaulipas	2,500,000	413,600	40,581	2,852,740	3,064,525	6,548,131	15,419,577
De Nuevo León	2,000,000	898,481	68,342	1,879,723	2,594,948	7,290,290	14,731,784
De Durango	2,000,000	306,650	68,734	3,359,288	1,016,485	9,461,690	16,212,848
De Coahuila	1,600,000	404,451	42,683	1,045,347	3,384,580	10,181,685	16,658,745
De Sonora	1,500,000	1,300,000	44,454	1,987,407	3,007,080	5,460,944	13,299,885
Occidental de Mexico	1,500,000	475,936	39,117	1,575,677	2,271,530	1,527,624	7,389,884
Del Estado de Mexico	1,500,000	240,252	125,686	1,062,015	3,191,891	3,545,505	9,665,349
De San Luis Potosí	1,100,000	296,873	37,820	3,676,334	3,209,754	1,955,838	10,276,619
De Hidalgo	1,000,000	188,668	219,851	420,338	2,640,199	2,351,403	6,820,459
De Tabasco	1,000,000	197,684	6,936	.....	1,204,135	2,021,752	4,430,507
De Morelos	1,000,000	79,624	6,059	34,125	1,492,270	672,326	3,284,404
De Querétaro	1,000,000	72,884	.....	212,625	1,635,795	978,319	3,899,623
De Zacatecas	1,000,000	467,508	10,774	1,412,922	1,771,919	1,856,228	6,519,351
De Aguascalientes	600,000	82,374	1,053	580,707	1,291,545	430,762	2,986,441
De Guerrero	500,000	18,614	.....	.....	1,323,270	21,281	1,863,165
							731,546,425
Auxiliaries or Refaccionarios:							
Central Mexicano	10,000,000	.....	470,622	14,928,871	6,551,000	73,509,893	105,460,386
Com. é Industria	10,000,000	500,000	6,066,909	308,454	.....	23,222,240	40,097,603
De la Laguna	6,000,000	155,057	32,707	1,601,569	.....	7,293,998	15,083,331
Español Refaccionario	2,000,000	33,665	1,578	913,733	492,800	1,561,243	4,993,019
Comercial Refac	200,000	27,806	47,255	1,510,538	.....	151,421	1,937,020
							167,571,359
Mortgage Banks or Hipotecarios:							
Hipotecario de Créd	7,500,000	905,785	168,406	710,245	26,319,400	5,594,536	41,198,372
Intern. é Hipotecario	5,000,000	1 200,000	2,778,968	275,811	21,914,800	20,460,843	51,630,422
Hip. y Agr. del Pacífico	2,000,000	19,783	11,699	37,811	.....	155,170	2,224,464
							95,053,258

emission, five auxiliary, and three mortgage banks is of interest, for it was prepared on the eve of Huerta's going.[1] (Slight discrepancies appear in the totals, due to leaving the cents out of count.)

[1] *Boletín Financiera y Minero de Mexico*, September 12, 1914.

XVI

RÉGIME OF THE CONSTITUCIONALISTAS

WHEN the Constitutionalist troops marched into Mexico City they brought with them bundles of fiat paper currency—roughly printed notes wherewith the Revolution had been financed for almost a year and a half. From Monclova, early in 1913, Carranza had emitted his first "currency," known as the Monclova issue. This fiat paper was forced upon the public under severe penalties. Merchants and farmers were compelled at the point of guns to accept it in exchange for goods; and bankers, on pain of jail, were ordered to receive it in liquidation of debts. And quite in keeping with the progress of the Revolution, where banks had not been fortunate enough to escape with their assets, they were left in the wake—broken institutions.

Not long after Carranza's advance carried him to Tampico he authorized an *Ejército Constitucionalista* (Constitutionalist army) issue of paper currency, and this it was he hauled

into the capital. This new note was not unknown there, for, as curiosities, specimens had been displayed in windows; but now they were brought in such quantities one shuddered to think of it; and rude soldiers, rifles in hand, proceeded to the market-places, there to buy the things they fancied and to tender "Constitutionalist" paper in payment.

First, the shopkeepers were the sufferers; but almost at once the whole fabric of society was permeated by the blight. Immediately, as by necromacy, every metal coin and bank-note disappeared—the worthless paper had put it to flight. Gresham's Law never had more blatant witness. The first phase of its operation we have seen under the dispensations of Huerta. The last we are now to witness, when the small fractional silver and copper coins and the depreciated bank-notes fled to cover before the deluge of fiat currency.

There developed at once a vicious circle which caught up society in a disintegrating whirl. The course of the Revolution in the capital for the next two years was little short of a financial orgy. Beginning with the soldier, the fiat paper reached the man in the street and the retailer in exchange for goods and wares. The retailer hurried to the wholesale dealer to pay his bills; the dealer raced to the

bank to liquidate his obligations; and the bank endeavored in turn to pay back to the people the paper which accumulated in its hands. And all the while the volume of notes endlessly increased, for the Constitutionalists had brought with them their printing-presses.

The banks were in the predicament of being compelled to receive this paper in liquidation of debts, for it was expressly declared to be legal tender (*curso forzoso*). And the penalties were severe for refusal to accept it. Obligations which had been contracted in good faith on a gold basis were now paid on a paper basis. The banks were in a more or less helpless predicament. If they in turn might have liquidated obligations to depositors through paying out the identical paper on a similar basis, the operations would have washed one another, and the banks in the end have emerged none the worse. But it goes without saying that many depositors could not be reached, spite of the fact that most of the banks exerted themselves to the utmost to locate their clients and to urge the withdrawal of deposits. There were, indeed, heavy liquidations of obligations to banks, and in turn there were heavy liquidations of deposits, because many depositors found the opportunity of using to advantage the paper currency and readily withdrew it.

Nevertheless, when the grand totals were struck, it was found that most of the banks had suffered losses in the transactions. However, a few private and foreign banking institutions seized the opportunity to buy valuable real estate and buildings, making payments in depreciated currency. In time, these may work into great profits.

Here, no attempt can be made to trace the topsy-turvy course of the Revolution, the rise to authority, and the fall of the contesting factions. Our interest at the moment lies in showing the effects on the banks of the currency expedients of the various groups. For example, after a few weeks of experience in the capital with the issues of the Constitutionalists, Villa and his friends came in and drove Carranza to Vera Cruz. Thereupon, effort was made to force the substitution of Villa issues (*dos caras, sábanas*) upon the people to the exclusion of those of Carranza. The confusions in the monetary order were abysmal, and Villa's Minister of Hacienda, at an early date called a meeting of bankers and frankly announced his ignorance of what was to be done to set things to rights. He asked for counsel and assistance, and it may be added that Villa and Zapata resorted to no harsh measures with respect to the banks while the capital was in their hands.

Indeed, Zapata once borrowed P50,000 from them, but returned it in two days.

In the mean time, from Vera Cruz the Constitutionalists kept their presses running, striking off what came to be known as the Vera Cruz issue. And, as things will turn out in that country, erelong they were again established in the capital, the Villa paper was declared void, and forthwith new millions of Veracruzanas were added to the already congested circulation.

What we have here described briefly as the course of the fiat paper currencies in the capital typifies the universal experience of the country. No town or city or countryside escaped. The demoralization and the chaos were almost fascinating in their sheer uncertainties. Speculation ran riot; no man wished to fall asleep with paper currency in his pocket, for, lo! when he awakened overnight he might discover that its values had evaporated with the incoming of a new faction; or, indeed, find that a decree had pronounced it void.

The banks in Mexico City suffered many ups and downs over the anxious months covering the entries and exits of Carranza, Villa, Zapata, and the *Convencionistas*. They hardly knew what to expect. Sometimes when things

looked too serious they closed their doors for a season. Such was the case from the 27th of January, 1915, to the 13th of February; and from the 19th of February to the 13th of March; and from the 19th to the 28th of June.

On August 1, 1915, Carranza had entered the capital, where he has since remained. From that time forward the banks began to feel the full weight of the Revolution. Banking and vested interests had dreaded the rise to authority of the long-time Senator from Coahuila—Venustiano Carranza. His attitude had been sufficiently revealed through his attacks on property in the states he had overrun. Change in this attitude was unlikely after he had been recognized by the United States and after he had risen to the headship of the convulsed republic.

With the fall of Huerta and the incoming of Carranza with his fiat paper currency, the banks, in a sense, resigned themselves to the inevitable. Under Madero and Huerta things had gone badly enough. For example, from the end of 1910 to the end of 1915 the deposits of the Banco Nacional fell from P47,000,000 to P18,000,000, and specie from P48,500,000 to P36,500,000. At the same time the circulation of the bank had increased from P52,000,000 to

P86,000,000, due largely to the operations of Huerta. Nor had it been able in any commensurate degree to reduce its outstanding credit lines. It had indeed begun to close its branches —of which there were sixty—as early as 1913, and to bring books and assets to the parent bank in the capital.

If we turn now to the Banco de Londres, the second largest institution in the country, we shall find that its assets from November 30, 1912, to December 31, 1915, dwindled from P196,799,956 to P171,043,290; and by March 31, 1916, this total had fallen to P166,859,547. Cash resources, on the other hand, had increased between November 30, 1912, and December 31, 1915, from P15,418,232 to P20,-604,051. To be sure, there had been an expansion in its note circulation, running from P21,363,091 to P38,403,549. However, it should be remarked that the high point in the outstanding circulation of the bank was reached on July 31, 1914, when the total approximated P62,402,566, as the result of Huerta's forced loans. But from that date there was a steady decline.

The experience of all other banks in the Republic was more or less in keeping with the above record. Differences were, in the main, only in degree. While branches of foreign banks

or private banking institutions, for the most part, have published no detailed reports, sufficient information has been gathered first-hand to warrant the above statement.[1]

While we are casting up balances at the end of 1915, we may not overlook the Caja de Préstamos, which came into existence in 1908. We have seen that it rapidly got under way. In 1912 the government acquired share control, although it was already too late to thwart the inside clique, which early divested the institution of its credits.

Here, as perhaps nowhere else, the criticism holds true that the banks were operated in Mexico largely in the interest of the parties in control. It is a pathetic commentary on the high purposes of President Diaz to show that the Caja de Préstamos, which was expected to relieve multitudes of farmers, restricted its loan operations to a few conspicuous hacendados and real-estate speculators of the Republic. According to the statement, which follows below, the loans of the Caja totaled P55,237,405. Of this total P53,540,000 had actually been loaned to *ninety-six* individuals. The largest single loan had been made to an agricultural and colonizing company in a total of P5,283,-

[1] As noted in the preface, it is not now possible, because of personal confidences, to give sources of authority.

000. The cash resources of the institution by the end of 1915 had been reduced to approximately P3,000,000, and the untoward condition of its business in general was reflected in the item of P7,500,000 which it carried in past-due obligations. The fate of the Caja was foreshadowed. It had failed completely in the mission for which it had been designed. The original idea which Limantour and Diaz had entertained of giving to Mexico a system of rural credits had been swamped by the protagonists of the Caja de Préstamos; and now, bitterly enough, the Caja designed to follow the land banks of Germany and the Crédit Foncier of France had gone by the board.

What had happened, to put it frankly, was that P60,000,000 of credits had been loaned to a comparatively few individuals. The government was left to hold the bag as guarantor of principal and interest of the P50,000,000 of gold bonds which had been sold abroad. Just what loss Mexico may eventually suffer from its guaranty, no one can say. That depends on the manner and time in which the securities impounded with the Caja shall be liquidated.

The statement in detail of its condition as of December 31, 1915, runs as follows: [1]

[1] *Caja de Préstamos*, etc., Mexico, 1916, Annex No. 5, opposite p. 40.

STATEMENT OF THE CONDITION OF THE CAJA DE PRÉSTAMOS

RESOURCES

Cash	P 1,113,001.88
Loans	55,237,404.88
Investment in stocks and bonds	2,088,780.00
Deposits in banks	947,902.01
Debtor accounts in gold	794,785.56
Various debtor accounts	7,778,189.63
Properties foreclosed	378,884.49
Commissions on sale of gold bonds	4,571,346.62
Expenditures on installation	31,883.66
Furniture and fixtures	2,729.45
Rediscounts	113,702.18
Deposit of securities in guaranty	9,215,253.94
Profit and loss	6,048,110.18
Total	P88,321,974.48

LIABILITIES

Capital	P10,000,000.00
Four-and-a-half-per-cent. gold bonds	50,000,000.00
Reserve funds	1,375,958.29
Deposits	4,819,371.89
Creditor accounts in gold	4,923,766.00
Various creditor accounts	359,514.36
Uncollected maturities	7,627,892.00
Dividend of 1912	218.00
Deposits of securities in guaranty	9,215,253.94
Total	P88,321,974.48

Carranza, on September 29, 1915, ordered that special inquiries should be made into the

conditions of the banks of emission, with a view to taking such action as the situation warranted. This was set about punctually and reports began early to appear in *El Constitucionalista*, the official organ.

By way of illustration, on January 19, 1916, statements were published with respect to the Banco de Nuevo León and the Banco de Zacatecas. As to the former, the special examiner reported that the bank held in vault: P665,000 gold; P199,300 silver; subsidiary coins, P10,-768.13; or a total of P875,068.13. Notes outstanding he found to be P2,170,211; sight deposits, P16,632 (non-interest bearing); sight deposits, interest bearing, P39,975. The examiner then stated that under its concession this institution was empowered to issue notes, secured on a 33-per-cent. metallic basis, and that it was therefore well within the limits of the law. As for the Banco de Zacatecas, its condition was reported on as of November 13, 1915. Its capital was found to be P1,500,-000, of which P600,000 had been paid; cash in vault, gold, P537,440; silver, P235,239.20; or a total of P722,679.21. Notes in circulation, P1,529,604; sight deposits, P9,319.52; at three days, P1,272,171.78. This statement, clearly, as the examiner admitted, found the institution within the terms of its concession. The

examiners went on to analyze the portfolio and concluded that in their judgment the bank was in a sound condition, and recommended that its concession should not be annulled—and it was so declared.

This work was continued until all the banks in the territory controlled by the Constitutionalists had been inspected. This labor was concluded in the spring of 1916, and things were ready for a new advance.

The condition of the country as a whole had been growing steadily worse. A considerable percentage of the rural population had been driven from their ranches and farms by the warring factions. What with the slackening in production and the general economic prostration of the land, the Constitutionalists early found themselves in financial as well as political difficulties.

The Monclova and Constitutionalist issues of paper currency had from the first been heavily counterfeited. And now the Vera Cruz issue came in turn not only to be counterfeited, but to be issued in such floods by the authorities that the public could not absorb it. Therefore, day by day, its exchange value fell in the markets.

Taking the counterfeit element in the equation as its starting-point, the government de-

termined to rid itself of the load of rapidly depreciating currencies. It would issue a new note, excellent in every respect and proof against counterfeiters, to be known as the *infalsificable*. It would be issued in limited quantities on a 20-centavo basis, and its value would be supported by the Administration through metallic reserves of 100 per cent., which were to be created. Before the end of 1915 all arrangements had been made for the infalsificable experiment. Accordingly, as early as April 28 and May 31, 1916, through decrees, all issues of notes not hitherto declared void were now so classified or ordered out of circulation. The field was to be cleared. Notice was published that holders of bona-fide notes of the Vera Cruz issue might have them verified by the Hacienda for legality, and such notes might then be turned in for infalsificables at a ratio of ten to one. Since the infalsificable was to be issued at 20 centavos, gold, the Vera Cruz peso was admitted by the government to be worth 1 cent in the currency of the United States. In all, P47,570,000 were turned in to the government. But infalsificable notes were not issued in exchange for the Vera Cruz notes —bonds instead were given out, and payments on these accounts were to extend over five years. It is fair to say that, according to re-

ports, three payments have been made on this obligation.

By the end of June, 1916, the Veracruzanas had disappeared—the new note had been introduced. That closed one of the most lurid financial chapters in the history of any country —and opened another. In all, it is asserted that small and large issues of fiat paper currency exceeded 200, and the volume reached easily P1,000,000,000. This is exclusive of the infalsificable issue. Señor Rafael Nieto, Sub-Secretary of Hacienda, in an interview quoted in *El Universal* of July 19, 1918, is credited with limiting the fiat currencies, leaving out of count the infalsificable, to P300,000,000, which he boasts was retired at a paper expense of P5,000,000. As a matter of fact, that sum is P250,000 in excess of the real charge laid on the Treasury.

When the infalsificable appeared on the scene, the stage was set for the grand finale; the curtain would be dropped on the paper troop. At first things went smoothly enough, for the infalsificable. Being the only legal tender in circulation, gold and silver having long since retired, those in need of current funds were forced to exchange with the government their precious metals, or New York credits, on a basis of 20 centavos for each infalsificable peso.

It was, however, only a matter of days until there developed other and almost mysterious markets for the new paper, and the price quoted by the government was slightly shaded. That pointed to the abyss. As the government daily poured into the circulation new quotas of notes in payment of troops and in purchase of supplies, troubles grew apace, for the promised metallic reserves failed of materialization.

At the very outset a decree had been issued forbidding banks as well as individuals to deal in exchange or paper money without a permit, and then only at official rates and after payment of a prohibitive tax. That is to say, it was meant that none should interfere with the government's plans. The Administration undertook to concentrate in its offices all exchange operations, which, as a matter of fact, were vital to the successful carrying out of its enterprise. For about a month the government was enabled, through the Comision Monetaria (Monetary Commission), to maintain the standard set by it of 20 centavos per peso, and redemptions of infalsificable notes were made on the basis indicated. Finally, however, the demands for redemption reached such proportions that the government was greatly distressed. With the first break in the price, there developed the

coyote, a sort of bucket-shop broker, who, despite the severe penalties imposed, ever multiplied. Soon the price broke further, and the government desisted in its purpose to put down clandestine trading in the notes.

On the recommendation of the Comision Monetaria, the Hacienda now undertook to support the market through bringing in confidentially several of the branches of foreign banks and several private bankers. These institutions were supplied with exchange on New York, which they expended in the purchase of infalsificables. The sums advanced daily ranged from P5,000 to P50,000; and for three months, from early in August, these institutions continued to support the market, to the extent of the funds supplied by the Comision.

Of course, their efforts, too, were abetted by the Comision, which had been organized under a decree of April 3, 1916—a decree which had been modified August 30th of the same year, at which date the functions of the Comision de Cambios y Moneda were absorbed. We have heretofore seen something of the operations of the Comision de Cambios y Moneda, and we are now to see the Comision Monetaria in action. The abolition of the former was in line with the general disruptive policies of the Administration. It seemed part and parcel of

a plan to leave nothing as it was before. The honorable record of the Comision de Cambios y Moneda was now quite to be obliterated. The Comision Monetaria had as *raison d'être* the reorganization and regulation of the fiduciary circulation of the country.

But the Comision was utterly powerless to stem the torrent. A very high reserve alone could have saved the situation. The country had three years of fiat paper experience back of it. The best available tables indicate that there were issued P540,000,000 of infalsificables, although definite data cannot be supplied by the Hacienda. Sub-Secretary Nieto in the interview above cited fixes the limit at P500,000,000. Of the total amount issued, the Hacienda claims to have called in and destroyed more than P400,000,000, and the balance is being withdrawn through a special tax. The infalsificable experiment had failed.

There was no escaping the fatal logic—the scheme was notoriously unsound. The Constitutionalist leaders, whatever illusions they might have held, were at last to learn that a fiat currency, unsupported by proper metallic reserves, is an *ignis fatuus* to be pursued by the untutored or the dishonest.

From the first it had been a losing fight. By the middle of August, 1916, exchange had

broken to 4½ or 4¼ centavos per infalsificable peso; and from that point there was a gradual recession until early in November the peso brought but a centavo, and then the fraction of a centavo; and, finally, all effort was abandoned to keep it in circulation. Utter failure had crowned the government's last fiat currency plan.

XVII

CRASH OF THE BANKS

THE collapse of the paper-currency régime with the return to metallic currencies found the banks hoarding the bulk of the metallic stocks in their vaults. That was an ill situation. The clamorous need of the ruling powers for funds, together with the charge, for political effect, that the banks had been at the head of a conspiracy to defeat the government's monetary plans which had promised so much for the Republic, brought an inevitable end.

So early, indeed, as September 15, 1916—the failure of the infalsificable was evident—a decree was issued canceling the concessions of the banks of emission. Sixty days, however, were granted them to bring their metallic reserves, held against notes, into conformity with the law. Singularly enough, the government did not appreciate the inconsistency of its position in declaring in annulment the concessions, while ostensibly allowing the banks sixty days to restore their reserves. Nor was

that all. A *Consejo de Incautación*, a board of sequestration, was appointed for each institution; and thenceforward no operation might be resorted to save under the dispensation of the Minister of Hacienda. Even, barring this limitation, it would not have been possible under the disordered state of things to bring up the metallic reserves to the requirements, for no metals were in circulation; nor were the mints in operation.

Obviously the banks entered protests, but when managers were locked up, arguments ceased. The sequestration boards were admitted; and in most cases, in conjunction with committees of the banks, complete inventories of assets and liabilities were taken. These doubtless will serve as bases for claims against the Mexican government by the stockholders of these institutions—stockholders mostly in the stricken countries of Europe.

The history of banks in Mexico from the fall of Madero to the decrees of Carranza putting them in liquidation is a story quite unmatched. It is impossible in the nature of this study to take up the several institutions and to deal with them in their individual cases. It must needs suffice to say that most of them suffered grave losses thr ough the Revolution, and finally succumbed to governmental inter-

vention. A few institutions, however, managed, as did the Banco de Sonora,[1] to escape with cash and portfolios across the border; or at least, where they did not escape intact, managed to save part of their cash resources. And even these funds the Mexican government has endeavored to reach through action at law.

After the decree of September 15th, to all intents and purposes, the banks ceased to function. The government's course was plain. When it found itself at the end of its paper-currency tether it began to take steps to consummate the thing it had held in reserve—the appropriation of the metallic moneys of the banks. When soldiers would no longer accept paper currency, they had to be paid in specie, and the only immediately available supplies were in the vaults of the banks. In the vaults, too, were quantities of bullion, and this the government was to seize and mint for its own purposes or export to create New York credits—notwithstanding its pronouncement that it was taking over the reserves in order to protect the note issues outstanding.

Bankers had known for some time that nothing could save them. The government was aware of the fact that the banks were not re-

[1] This bank is now chartered under the laws of Arizona and is doing business at Nogales.

sponsible for having exceeded the limits set by the General Law of 1897 in the matter of note issues. It was well known that Huerta in special decrees had authorized—even compelled—these institutions to adopt a three-for-one basis. It was equally well known that he had issued every peso of excess circulation charged to the banks. But no extenuation was to be considered.

After the decree of September 15, 1916, which placed the Mexican banks of emission in liquidation, private and foreign banks loomed in importance. Of course, the banking institutions which remained in the capital attempted to do only the most perfunctory business. Indeed, it is not too much to say that the functioning of banks was negligible, save in the department of exchange. The foreign banks, almost without exception, were refusing to receive deposits, except on conditions carefully prescribed in each separate case. From the end of 1916 to November, 1919, deposit and loan operations have been of small volume. The Deutsche Sudamerikanische Bank and Lacaud & Son have been active. The former—a branch of a German institution reported to be controlled by the Dresdner Bank—took on many new lines and its deposits at one time were reported to have reached P23,000,000.

The foreign banks of note are: The Compañía Bancaria de París y Mexico, Deutsche Sudamerikanische, El Descuento Español, the Mexico City Banking Company, Lacaud & Son, the Bank of Montreal, the Canadian Bank of Commerce, and the Mercantile Banking Company.

These banks had opened in Mexico City one after the other during the preceding twenty years, and, up to the time of the eruption, had been successful in the conduct of their business enterprises. Foreign banking interests, however, had on more than one occasion been subjected to heavy criticism on account of failures. The most noted of these was the United States Banking Company, which collapsed, it will be recalled, in the early part of 1910 with heavy losses. In spite of two or three failures of foreign corporations, the banks which have remained in Mexico enjoy an honorable reputation.

It goes without saying that these institutions, too, have suffered during the revolutionary times. Fully three-fourths of their deposits have been liquidated—a liquidation not only invited, but insisted upon by the banks. This constitutes an unheard-of chapter in the history of banking, and offers a calamitous commentary on conditions. These institutions have suf-

fered heavy losses through the enforced payment of their bills receivable in depreciated paper currencies. The Banco Nacional alone charged off P30,000,000 in this connection; but through the purchase of its notes at reduced prices recouped about P7,000,000 of the loss. The other institutions of the country have probably charged off in the aggregate P50,000,000 in addition.[1]

When the grace allowed in the decree of September 15th had elapsed, no bank having been able to bring its reserve within the limit fixed, another decree was published (December 14th). It referred to the earlier one, declaring the banks in liquidation and authorizing them to receive checks and their own notes in satisfaction of bills receivable. The banks, unjust as this rule may be in application, are not complaining. Notwithstanding the fact that bank-notes can be bought in the markets at prices ranging from 5 to 25 centavos on the peso, the banks may not in law or morals find ground to refuse to receive them at par in

[1] For six years banks have endured abnormal conditions, whether under state authority or otherwise. The Banco Nacional paid its last dividend July 1, 1913; Londres y Mexico, August 1, 1915; Banco Internacional ô Hipotecario, April 1, 1916.[2] But these were the exceptions. As for the stocks of the banks, as many as twelve are no longer quoted: and some of them are offered in the markets at P5 per share, par being P100.

[2] *Boletín Financiero y Minero*, March 1, 1918.

liquidation of obligations, for at par they were issued.

But, on the other hand, the attitude of the government is inconsistent in that the banks are not allowed to carry in their statements bank-notes of other banks, at face value. In the estimates made by the government on the solvency of banks, the rule has been pursued rigidly to discount all notes at 70 per cent.

The third step in the plan for the liquidation of banks was taken April 6, 1917. On that date a decree was published stating that the Hacienda would be charged with the responsibility of carrying out the plan, directly under the President of the Republic, who would prepare the regulations so as to prevent disturbances and dangers. If it was found that the banks could not pay out, they would be liquidated under the law regulating bankruptcies. When all reports were in, the latter exit developed; and on July 7th a new decree charged the Comision Monetaria with the task. Each bank was to appoint a representative enjoying all the powers granted under the law regulating bankruptcies. But recently the banks were taken out of the hands of the Comision, and now await the enactment of a law to cover their particular case. But Carranza hesitates

to act, and in his message to Congress of September 1, 1919, he plainly said that some of the banks might be permitted to resume business.

At first the government in its decrees carried two divisions for banks, the concessions of one distinctly declared annulled, the other not. In the first group were included the banks Peninsular Mexicano, Banco de Guerrero, Banco de Hidalgo, Banco de Querétaro, Banco de San Luis Potosí, Banco de Coahuila, Banco de Aguascalientes, Banco Minero, Oriental de Mexico, Banco de Guanajuato, Banco de Morelos, Banco de Durango, Banco de Jalisco, Banco de Tamaulipas, and the Mercantil de Monterey. The concessions of the first and the last in this list, spite of their inclusion here, were not annulled.

The second group contained Banco Nacional, Banco de Londres y Mexico, Banco del Estado de Mexico, Banco de Zacatecas, Occidental de Mexico, Banco de Nuevo León, Banco de Tabasco, Mercantil de Vera Cruz, and Banco de Sonora.

But with time the government changed its classifications. In May, 1918, Sub-Secretary Nieto of the Hacienda gave out an interview, referring to the banks.[1] He said:

[1] *El Pueblo*, May 3, 1918.

CRASH OF THE BANKS

In effect, of the twenty-six banks of emission and auxiliary (refaccion) in the Republic, twenty must be declared in bankruptcy, since their assets will not cover, by wide margins, their liabilities, even though the government should pay immediately and in full its obligations to them. Three of the remaining banks are not in a bad condition, but their capital is so small that they can be of little support in the organization of a new system of credit. The other three banks, although they may be able to cover their liabilities, taking into account what the government owes them, have lost, nevertheless, almost wholly their capital.

The three banks classified as sound, but with impaired capital, were Banco de Sonora, Occidental de Mexico, and the Mercantil de Monterey. The three which had lost practically all their capital were: Banco del Estado de Mexico, Mercantil de Vera Cruz, and the Banco Nacional.[1]

The case of the government against the banks—prepared by Señor F. G. Camacho, Chief of the Department of Banking—is skilfully set forth in the following document, which is, we believe, unique even in the annals of the revolutionary governments of Mexico.[2]

The notes contained in the chapter entitled, "Banking," of the work, *What Is the Revolution* (*¿Qué es la*

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[1] *El Pueblo*, May 4, 1918.

[2] Memorandum prepared for the writer by Señor F. G. Camacho, Chief of Department of Banking.

Revolucion?), written by Señor Don Antonio Manero—and which notes I believe will be considered reliable—display with great clearness the fundamental defects of the organization of the Institutions of Credit in the Mexican Republic, which defects may be synthesized thus: privileges illegally granted; bad management; and very bad investments.

In fact, both the General Law of Institutions of Credit in force during the régime of General Díaz, and the concession contracts of the Banks of Issue, were promulgated and granted in flagrant violation of our Constitution of 1857, which provided definitely that no private concern should enjoy privileges.

The banks in all their business operations were exempt from the payment of federal, local, and municipal taxes; and in order to foreclose their debtors, they were not obliged to go to the courts of the Republic, but could accomplish that without the intervention of the judicial authorities.

All law must be considered as unconstitutional—even though it may have been decreed by the legislative houses of the Union—when it exceeds the powers and prescriptions defined by the Constitution (*Carta Fundamental*).

The Huerta government—denied needed resources by foreign countries through the decisive influence of non-recognition by the United States—found it necessary to have recourse to the natural resources of the country, and obtained from the banks a loan of about forty million pesos, through granting to them the right of raising the ratio of issue from two-to-one to three-to-one, without increasing the reserve. It declared bank-notes, their own issues, legal tender throughout the Republic, which initiated the depreciation of the fiduciary paper.

CRASH OF THE BANKS

The Revolution, triumphant, and carrying into practice its principles of justice, and cognizant besides of the fact that upon the banks was founded the power of the conservative classes, which had directly supported the government of General Diaz, and which had overthrown the constitutional administration of Señor Madero, and elevated Huerta by the *coup d'état* of February—there was issued a series of laws tending to modify the banking organization in the Republic and to establish it upon the basis of justice, in order that it might fill its true mission in the life of the people.

Under date of September 29, 1915, it was ordered that the banks should adjust their circulation according to Article 16 of the General Law of Institutions of Credit.

None of the banks could comply with the provisions of the above-mentioned regulation, and as the decree by the Huerta government was illegal—on account of that administration having come into being, not by the will of the people, but through crime and force—the failure of the banks to adjust themselves to what the laws provided would have warranted the government in declaring the confiscation of their concessions.

On analyzing the problem more deeply, it is to be seen that such concessions were subject to defects in their origin, as stated before; and such was the foundation of the Decree of September 15, 1916, by which the General Law of Institutions of Credit was declared abrogated and the concessions of the Banks of Issue declared null and void.

On formulating such regulation, consideration was given that the notes in circulation in the hand of the public should be guaranteed in some way, as well as the deposits which the public had confided to the Institutions of Credit.

These two conditions demanded the intervention of the public authorities in the Banks of Issue, so that those two matters should have attention, in such manner that the interests of the public should not be prejudiced.

It seems unnecessary to emphasize the fact that the bad situation of the banks does not arise in any manner from the revolutionary movement or from the laws decreed by the latter, for such a state of affairs originated in the régime of General Diaz, from causes which may be ascertained and to which I have previously referred.

The Decree of December 14, 1916, having been promulgated, the government intervened in the banks, and its concern with the Institutions of Credit has not been other than to procure by all possible means the conservation of the interests of the public, performing all those operations which looked to the evading of a crisis and to facilitating the liquidation of the banks referred to. Such work has been very difficult, for, owing to their previous bad management, their portfolios are stuffed with unrealizable securities which have depreciated and which in reality do not represent even 30 per cent. of the values at which they are carried on the books.

The bankers maintain that they saw themselves forced to accept great quantities of fiat paper in payment of their loans; but they do not admit that they were the direct cause of the depreciation of the issues put out by the government, nor do they refer to the great quantities of their own notes bought with the other issues at truly ridiculous prices, as well as the many deposits which they liquidated at par in the same currency.

The legal regulations, upon which are based the acts of the government, are included in the collection of Decrees which I inclose with this short memorandum.

Before concluding, I will permit myself to add that it is a matter already extensively debated and practically decided that the system of plurality of Banks of Issue is less efficient than one centralizing the matter of emissions.

Such an error in our banking system was recognized by Limantour himself, its founder, and in 1908 he tried to correct it by the issuance of a modificatory law of the General Law of Institutions of Credit, aiming to bring about the transformation of the Banks of Issue into refaccionario banks, and looking toward the end that the Banco Nacional should be the only bank of issue in the country. Such result could not be realized.

As the present government of Señor Carranza is sure of the justice and honesty of its proceedings, all the data will be furnished to you that you may judge pertinent or necessary for the publication of your work.

Necessity is the supreme law; for the public affairs of the nation the government saw itself under the necessity of disposing of part of the metallic reserves of the Banks of Issue; but such sums will be paid over by the government without loss to the Institutions of Credit.

This sum amounts to P49,812,217.16, as you may see for yourself by the consolidated General Balance which is supplied you.

Said quotas supplied by the banks are considered in their balances as cash on hand, now that the nation is responsible for them.

This instrument has been given in extenso in order to show clearly where the government stands. It doubtless is true that some of the banks were badly managed. It is, furthermore, certain that some of them had

made loans which would have worked out losses even in normal times; but that all the banks were in this category is, of course, an absurdity. And the very fact that the government made no effort to distinguish between good and bad institutions is a blunder from which there can be no escape. According to its own statement, as published officially, three banking establishments were solvent and three had suffered only impairments of capital. Why, then, should these institutions have been closed? A double reason appears to have lain at the bottom of the government's course:

1. It was necessary to sweep clear the ground in order to establish a central bank of emission, toward which the attention of the ruling powers had been directed from the first, with a view to placing in circulation a new issue of fiat currency.

2. The very material reason that the banks held in their vaults some millions of pesos in coin. It was, indeed, out of these balances that the government admittedly made up its monthly deficits over the year 1917—these deficits averaging approximately P4,000,000.

The banking situation in Mexico by the winter of 1919 had changed materially from December, 1916. In the first instance, practically all the gold and silver of the institutions had

been appropriated by the Administration, and the banks languished in the hands of government officials. Even though they have been in possession of the banks for three years, small progress has been made in the liquidation processes.

The Department of Agriculture and Fomento, however, has announced the sequestration of a tract of land, approximating 746,000 hectares,[1] belonging to the Banco de Londres. This tract is situated in Quintana Roo and is the best chicle producer in the Republic. The bank had spent a lot of money in its development, but according to official ruling the item must be charged out of the assets.

But there are few changes. This is shown in a comparative study of two statements supplied by the Department of Banking. One is for February 28th, the other for September 30th. Some work, it is true, has been done in shifting credits from one column to another. For example, "Securities Immediately Realizable" shows an increase of more than P15,000,000; secured loans have fallen from P7,964,178 to P3,856,112; loans to the Constitutionalist government have risen from P49,812,217 to P53,124,933. The loans to Huerta, through failure to show the quota advanced by the

[1] *El Pueblo*, March 20, 1918.

Banco Nacional in the February statement, rose from P37,358,789 to P48,493,180. The reports reveal the fact that as rapidly as cash accumulated in the banks it was paid to the government. The net of it all is that approximately P4,000,000 have been collected by the various institutions between February and September—and that nearly all of it went to the ruling power.

It would perhaps be of interest to compare the statement of banks for September, 1918, with that for 1910. But the task would be thankless. It is sufficient to say that the total assets of the banks of emission over the eight years have shrunk by half, and the cash in vault from P70,000,000 to P2,274,144.

The Administration has refused to admit the liability of Mexico on the bonds which were issued by Huerta, and yet it carries in its tables the item as a loan. In its analyses of balance-sheets, however, it has in each several case deducted the Huerta bonds from the assets of the banks. On the other hand, the loans to the Constitutionalist government, which were created through the appropriation of the specie of the banks, are admitted.

When all is said, it is clear that any attempt to pass judgment on the condition of the banks in Mexico would prove a futile task.

Collaterals in the portfolios of the banks—perfectly sound prior to the Revolution, and which still might be valid under normal conditions—if thrown on the market can yield no returns. Accordingly, it is not an absurd position the government takes when it says that 30 per cent. only of the portfolios of the banks can be realized upon.

No allowance has been made by the government for the fact that the condition of the banks is largely due to losses suffered through the disintegration of their collaterals and through the destruction of properties impounded for the security of debts. The banks surely have been caught between Scylla and Charybdis—the Scylla of revolution, on the one hand, and the Charybdis of a hostile government, on the other.

There can be no future in Mexico for banking so long as the present attitude of the government persists. In the first place, the Constitution of 1917 inveighs against vested interests, and banking is singled out for special attack. And yet the irony of it all is seen in the admission of the authorities that no regeneration of Mexico is possible without credit machinery. The proof of this is found in the abandonment for the time being of the Banco Unico idea and the concentration of the Administration on

the enactment of a general law for credit institutions. The draft of an Act, bearing date December 13, 1918, provides for a Banco Unico de Emision, Bancos Hipotecarios (mortgage), Refaccionarios (auxiliary), Agrícolas (farm), Petroleros (oil), and Depósito (deposit) —six types in all. It is scarcely necessary to comment on the plan. (At this writing, November, 1919, the measure has been withdrawn from Congress, and it is of interest simply as pointing a moral.)

In any program looking to the welfare of the Mexicans, the matter of providing credit institutions which shall respond to universal needs must have primary consideration. But such program may not be approached until a stable government has been established.

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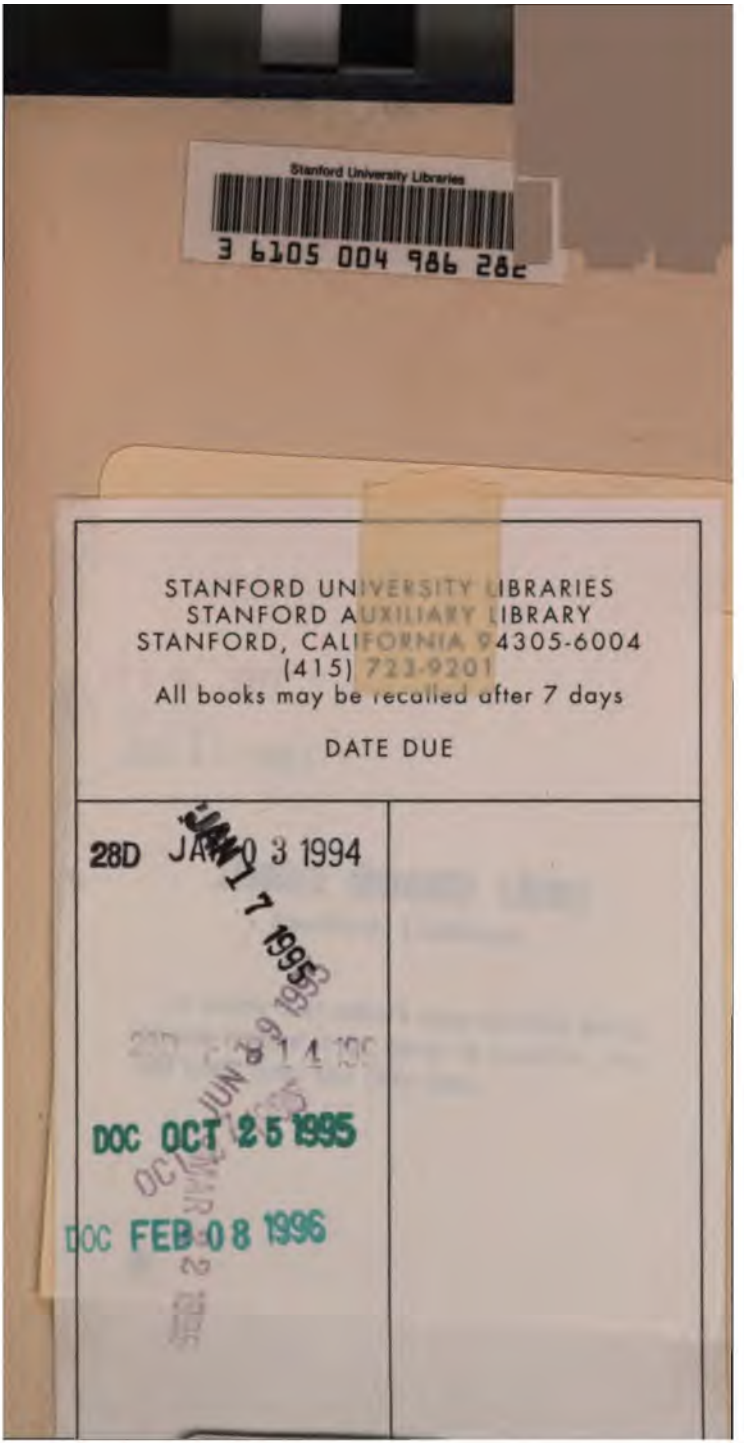
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